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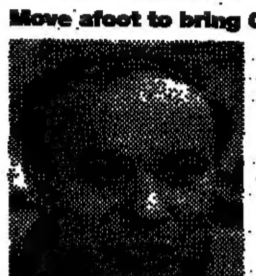
Britain poised for legal battle over Maastricht treaty

A climbdown by Britain's Conservative government on the Maastricht treaty's social chapter set the stage for a tortuous legal battle over UK ratification of the treaty. Facing certain defeat at the hands of an alliance of opposition parties and Tory Euro-sceptics, the government accepted an amendment to delete from British law any reference to the treaty's social provisions. Page 14; Details, Page 7

Philips, Dutch electronics group, said net profit fell by 36 per cent to Fl 103m ($57.9m) in the first quarter, largely owing to a sharp decline in its communications systems business. However, operating losses stabilised in Philips' consumer electronics business. Page 15

Move afoot to bring Gaidar back:



Russian reformists have suggested that the balance in the government, which has recently tipped in favour of conservatives, could be redressed by bringing Yegor Gaidar (left) back into government and removing the central bank governor. Mr Gaidar, one of the architects of Russia's market reforms, was sacrificed by President Boris Yeltsin last December as a concession to his conservative rivals. Page 14

Mannesmann, German engineering group, said profits on continuing operations dropped from DM655m ($388m) to DM339m because of the costs of setting up a mobile telephone network. Page 15

US reviews drug sentencing: Janet Reno, US attorney-general, has ordered a review of federal prosecution and sentencing policy for drug offences in a move which may head off a revolt by federal judges. Page 5

World Health chief re-elected: Japan's Hiroshi Nakajima was re-elected for a further five years as head of the World Health Organisation foiling an attempt by western nations to remove him. Page 4

Rhône-Poulenc, French chemicals company, is considering a public sale of its 35 per cent stake in Roussel-Uclaf, the pharmaceuticals group, which would be worth FFr1.05bn ($188m) at current share prices. Page 15

Baghdad moves to boost dinar: Iraq withdrew from circulation old, premium-priced banknotes in an attempt to shore up the dinar, and closed its border with Jordan where the notes have been hoarded. Page 4

BAT Industries, UK-based tobacco and financial services group, increased pre-tax profits by 40 per cent in the first quarter, but warned that the recent US cigarette price war would affect its business. Page 17; Lex, Page 14

Scandinaviska Enskilda Banken, Sweden's leading commercial bank, cut its operating loss in the first quarter by 56 per cent to SKr608m ($83m), triggering a renewed surge in the share price. Page 17

Four shot in South Africa: Gunmen killed four police officers in South Africa's Soweto township in an ambush. A man claiming to belong to the Azanian People's Liberation Army took responsibility.

BT sale set for July: The sale of UK government shares in British Telecom is to take place in the middle of July. Ministers believe the regulatory issues posed by the Monopolies and Mergers Commission investigation into British Gas should not affect the BT sale. Page 15

Patten puts case to US: Hong Kong governor Chris Patten, who is trying to persuade Washington to renew China's favourable trade status, acknowledged he was unlikely to have changed the administration's mind. Page 4

MCI Communications, US long-distance telecoms group, has beaten AT&T and British Telecom to an $80m five-year contract to operate a global communications network of New York banking group J.P. Morgan. Page 19

Ecuador leads anti-corruption drive: Quito is expected to become the first to sign a new international anti-corruption code of conduct and restrict the award of official contracts to local and foreign companies which have made the same pledge. Page 4

■ STOCK MARKET INDICES		
FT-SE 100:	2796.5	(-16.1)
Yield	4.07	
FT-SE Eurotrack 100	1153.13	(+4.97)
FT-A All-Share	1381.77	(-0.5%)
Nikkei	Closed	
New York lunchtime:		
Dow Jones Ind Ave	3459.48	(+4.29)
S&P Composite	444.77	(+0.72)
■ US LUNCHTIME RATES		
Federal Funds:	2 15/16%	
3-mo Treas Bills: Yld	2.921%	
Long Bond	103 5/32	
Yield	6.809%	
■ LONDON MONEY		
3-mo Interbank	6 1/16%	(6 1/8%)
Liffe long gilt future:	Jun 104 1/4	(Jun 104 3/8)
■ NORTH SEA OIL (Argus)		
Brent 15-day (June)	$19.11	(19.13)
■ Gold		
New York Comex (June)	$355.5	(355.7)
London	$353.65	(354.70)

■ STERLING		
New York lunchtime:		
$	1.5685	
London:		
$	1.5685	(1.5705)
DM	2.475	(2.4675)
FFr	8.345	(8.32)
SFr	2.22	(2.225)
Y	172.75	(173.25)
£ Index	80.4	(80.5)
■ DOLLAR		
New York lunchtime:		
DM	1.579	
FFr	5.318	
SFr	1.4165	
Y	110.165	
London:		
DM	1.578	(1.571)
FFr	5.32	(5.2975)
SFr	1.4155	(1.4175)
Y	110.20	(110.25)
$ Index	63.5	(63.3)
Tokyo Y Closed		

Austria	Sch30	Germany	DM3.30	Lux	LFr60	Qatar	QR12.00		
Bahrain	Din1.250	Greece	Dr300	Malta	Lm0.60	S.Arabia	SR11		
Belgium	BFr60	Hungary	Ft172	Morocco	MDh13	Singapore	S$4.10		
Bulgaria	Lv25.00	Iceland	IKr180	Neth	Fl 3.75	Slovak Rp	KSL45		
Croatia	SLT220	India	Rs40	Nigeria	Naira45	Slovenia	HRD5700		
Cyprus	C£1.00	Israel	Shk5.90	Norway	NKr16.00	Spain	Pta200		
Czech Rp	Kcs45	Italy	L2700	Oman	OR1.50	Sweden	SKr15		
Denmark	DKr15	Jordan	JD1.50	Pakistan	Rs35	Switz	SFr3.20		
Egypt	E£4.50	Korea	Won 2500	Philippines	Pso45	Syria	S£50.00		
Finland	FM12	Kuwait	Fils600	Poland	Zl 22,000	Tunisia	Din1.250		
France	FFr9.00	Lebanon	US$1.25	Portugal	Es215	Turkey	L7000	UAE	Dh11.00

Negotiations fail over formula to equalise pay with western regions

E German strikes to spread

By Judy Dempsey in Berlin

IG METALL, Germany's powerful engineering union, will today step up strikes throughout eastern Germany following the collapse of talks with employers.

A further 24 enterprises, including four steel plants, will be targeted, and a strike ballot will be held next week in the metal and engineering sectors of the three remaining states of Saxony-Anhalt, Berlin-Brandenburg and Thuringia.

More than 30,000 workers in 24 enterprises are on strike. If the action continues, IG Metall could bring what remains of eastern German industry to a standstill by calling out all its 400,000 members.

Yesterday's talks in Dresden broke down after failure to agree which enterprises might be excluded from paying wage increases of more than 20 per cent, or on a postponement of the income parity timetable. The union wants Gesamtmetall, the metal and engineering employers' association, to reinstate a contract signed in 1991 which would have brought wages in eastern Germany to western levels by next year. The employers cancelled the contract because of the recession.

The strike has hit factories throughout the former communist state. Volkswagen, which has a greenfield plant in Mosel, Saxony, said production of the Golf car was at a standstill. The plant employs 2,600, and produces 380 vehicles a day. But production at Mosel accounts for only 8 per cent of Volkswagen's Golf output.

Production at a subsidiary of electronics group AEG has also been halted, with a third of the 900 workers on strike. The company said loss of component supplies from the Dresden plant was costing it about DM400,000 ($250,000) a day. The plant accounts for 1.7 per cent of AEG's turnover.

Siemens, which employs 17,000 people in eastern Germany, said yesterday that 2,600 were on strike. It expected turnover of DM5bn in the region this year, a small percentage of its total turnover of DM78bn. All its plants had offered 9 per cent rises, as recommended by the employers.

But BICC, the UK-based international cable company, committed to investing DM80m in its KWO Kabel plant in eastern Berlin, said it was determined to make the company competitive, and link wages to high productivity levels. "We have offered our 2,200 employees a pay rise of 18 per cent. We have already paid for April," it said. IG Metall has not responded to the offer.

Mr Dieter Kirchner, a leader of the metal industry employers federation, yesterday called on the unions to return to the bargaining table. A new round of talks had been scheduled for today in the northern city of Rostock.

"It's totally incomprehensible that the IG Metall union said last night that we couldn't negotiate any further," Mr Kirchner told German radio.

He also raised the possibility of a lock-out in those plants where some work has continued despite the strike.

But Mr Hasso Duevel, head of the IG Metall negotiators in Saxony, described the employers' stance as "outrageous", saying it had forced the union to expand the strike "much earlier than we had planned."

Mr Otto Lambsdorff, chairman of the Free Democrat party, said the strike amounted to "mass suicide". In an interview with the Sächsische Zeitung newspaper, he said it would destroy jobs and scare off investors.

Italy's left rocked by ripples of scandal

By Robert Graham in Rome

THE Italian corruption scandal yesterday looked likely to further implicate the former Italian Communist party (PCI).

Milan magistrates leaked evidence that Mr Giulio Caporali, a former board member on the state railways representing the Communists, had helped to channel money to the party.

Mr Caporali, it was alleged, had ensured that money went to the party via railways contracts handed out to 10 groups belonging to the PCI's co-operative movement.

The funds were allegedly used to plug the debts of L'Unita, the PCI daily newspaper, and cover conference expenses. Mr Caporali was expelled from the PCI in 1986 after a scandal over the purchase of linen for sleeper coaches.

Railway contracts are emerging as one of the principal new lines of enquiry by Milan magistrates. Another is contracts in the state telephone system. In the past four days one senior former executive in Asst, the telephone service, and an official in the telecommunications ministry have been arrested.

Mr Giuseppe Parrella, former managing director of Asst, is being questioned about alleged kickbacks on L2,500bn (£1.06bn) of telecom orders involving domestic and multinational companies between 1987 and 1991.

Meanwhile, Italy's chamber of deputies yesterday decided to abolish secrecy when voting on whether to waive the immunity of members involved in cases of corruption and the illicit financing of political parties.

This represented a hurried attempt to mollify public opinion, outraged by the way parliament last Thursday blocked four of six requests by Milan magistrates for Mr Bettino Craxi, the former Socialist leader, to face charges of corruption.

In demonstrations in Italy's main cities, protesters claimed immunity was being abused to protect parliamentarians like Mr Craxi. The outcome of the vote led the former communists, Party of the Democratic Left (PDS), and the Greens to withdraw their four ministers from the Ciampi

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Italy downgraded, Page 21

Russia and US show unity on Bosnia

Leyla Boulton in Moscow, Laura Silber in Pale and Robert Mauthner in London

THE US and Russia yesterday glossed over their differences on Bosnia to present a show of unity, as the Bosnian Serb parliament met behind closed doors in its mountain headquarters of Pale to decide whether to endorse the international peace plan.

The debate continued into the night, following an impassioned plea for the plan's endorsement from Belgrade leaders, President Slobodan Milosevic of Serbia and Mr Dobrica Cosic, president of the rump Yugoslavia.

"We cannot wage war until we commit suicide," Mr Cosic said. Even Mr Radovan Karadzic, the Bosnian Serb leader, who signed the agreement in Athens last weekend under great international pressure, warned deputies that "enormous dangers hover over us" if they should reject the plan. He added that the Bosnian Serbs could still attain their goals through peaceful negotiation if they endorsed the plan.

After talks in Moscow between Mr Warren Christopher, the US secretary of state, and Mr Andrei Kozyrev, his Russian counterpart, the two sides issued a bullish statement clearly designed to encourage a "yes" vote in the Bosnian Serb assembly.

The statement said both sides were prepared to commit "appropriate" military to a peacekeeping operation, if the Bosnian Serbs accepted the peace plan, brokered by Mr Cyrus Vance and Lord Owen.

However, like Britain and France during previous stops made by Mr Christopher on his current tour, Russia did not commit itself to specific military measures if the Bosnian Serb assembly rejected the peace plan for the third time.

"If it is not accepted and implemented, Russia and the US will immediately resume discussion of new, tougher measures. No measures are prejudged or excluded from consideration," the statement said.

Although the western allies and Russia are clearly keen to maintain the pressure on the Bosnian Serbs, their reservations about lifting sanctions on arms supplies to Bosnia or making selective air strikes would make it difficult to reach a consensus on military action. The US, has said it will not act unilaterally, even if the Pale assembly rejects the peace plan.

The differences over the options should the plan be rejected are compounded by disagreements on the terms of engagement for the 60,000 to 70,000-strong peacekeeping force intended to oversee the implementation of the plan and its command structure in Bosnia.

Lord Owen, who visited Nato headquarters in Brussels yesterday, emphasised that the Nato-led force had to be prepared to fight if necessary to enforce the plan and that it should be deployed even if the Bosnian Serb assembly rejected the plan.

That view has been categorically contested by Mr Douglas Hurd, the UK foreign secretary, who said: "We are not envisaging the deployment of troops into a war".

Milosevic turns necessity into a virtue, Page 2

Serb president Slobodan Milosevic (right) listens as Bosnian Serb leader Radovan Karadzic confers with Greek premier Constantine Mitsotakis (left) before the parliamentary debate on the Vance-Owen peace plan at Pale in Bosnia yesterday

Fugitive Nadir's flight to Cyprus wrecks fraud trial

By John Murray Brown in Kyrenia, northern Cyprus and Richard Waters in London

UK ATTEMPTS to secure the return of the fugitive businessman Mr Asil Nadir from the self-proclaimed Turkish Republic of Northern Cyprus seemed set to fail yesterday as prosecutors in the UK faced collapse of one of the country's biggest-ever fraud trials.

Mr Nadir's flight to northern Cyprus on Tuesday night prompted instant recriminations in the UK.

The Serious Fraud Office, which had led the fraud investigation following the collapse of Mr Nadir's fruit to electronics group, Polly Peck International, took the unusual step of issuing a formal statement attacking the decision to allow him to remain out of custody.

"The prosecution has consistently and strenuously opposed Mr Nadir's applications for the return of his passports, continuing to assert a real fear that he might abscond," the SFO said.

Bankers owed more than £1bn ($1.54bn) following the collapse of Polly Peck also reacted with dismay. One banker on the Polly Peck creditors committee said: "We always thought he would leave, but what can you do about it? You can't keep him in prison for years [awaiting trial]."

Mr Nadir, who faced 13 charges of theft and false accounting from Polly Peck involving around £34m, was due to stand trial in September. He had handed both his UK and Turkish passports to police and personally put up £2m of his record £3.5m bail.

Mr Nadir's solicitors in London said last night he had been unwell and "very concerned about various aspects of the judicial process" and whether he would have time to prepare his defence.

Mr Ramadan Guney, the Turkish businessman who put up a £1m surety for Mr Asil Nadir, yesterday said Mr Nadir had given him no indication that he intended to flee the country when they met on Monday. Speaking from his music shop in north London, Mr Guney denied any involvement in his flight.

Mr Nadir spent his first day in more than two years on Turkish Cypriot soil yesterday, hidden behind closed doors with his family, greeting well-wishers.

Mr Mentes Aziz, his lawyer, expressed some surprise at Mr Nadir's sudden arrival on the island: "I saw him only 10 days ago in the UK and he seemed so determined to fight his case in the courts."

Although the UK has no extradition agreement with northern Cyprus, an official request was due to be made yesterday to Mr Rauf Denktash, the Turkish Cypriot leader, for Mr Nadir's return. Mr David Dain, UK High Commissioner in Cyprus, crossed the Green Line dividing Turkish North Cyprus from the rest of the island to appeal to the authorities to send the businessman back.

However, north Cypriot officials appeared yesterday to be closing ranks behind the fugitive Cypriot businessman. After taking advice from the attorney general and the island's police chief yesterday morning, president Rauf Denktash said there was no problem between the state and Mr Asil Nadir.

The issue was a judicial problem, he said, and had to be decided by the government. "Any decision must come from the government. They have to make clear what they will do... Asil Nadir is our citizen and there is no country in the world where it is not a government's duty to protect its citizens."

Mr Nadir's case is expected to be discussed in front of a senior judge in London tomorrow.

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■ Will he become a bird in a gilded cage?
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Milosevic turns necessity into a virtue

By Laura Silber in Pale, Bosnia

DEPUTIES assembled at the self-styled Bosnian Serb parliament yesterday to debate the international peace plan for the country appeared more annoyed than awed by the arrival of their patrons Serbia's President Slobodan Milosevic and his Yugoslav counterparts at their mountain stronghold of Pale.

The Bosnian Serb leadership stood on the terrace of the Heavenly Valley Hotel waiting for the long motorcade of sleek black Mercedes limousines to snake up Mount Jahorina. The soldiers chanted a song of resistance against the Turks set to an American square-bashing tune.

Just a few miles away, Serb artillery trained on Sarajevo over the past year has all but destroyed the Bosnian capital.

A crowd watched as Mr Milosevic, who has newly donned the mantle of international mediator, and his closest international ally, Mr Constantine Mitsotakis, the Greek prime minister, reviewed the Bosnian Serb guard of honour.

Mr Radoslav Brdjanin, a hardline deputy from Banja Luka, north west Bosnia, remarked: "They do not understand we are fighting their battle for them. We are defending Belgrade, when our soldiers die on the frontlines in Grbavica," he said in reference to a Serb-held suburb of Sarajevo, the Bosnian capital.

Mr Milosevic called on the assembly to back the international plan to divide Bosnia into 10 provinces along ethnic lines. "The decision for peace has no alternative because it is in the interests of Bosnian Serbs and Serbs in general," he said.

Mr Dobrica Cosic, the Yugoslav president, warned Bosnian Serb deputies that they faced a stark choice between a military defeat or achieving their political aims in peacetime.

Mr Radovan Karadzic, the Bosnian Serb leader, echoed his patrons from Belgrade and sheepishly toned down his message of defiance.

Early in the day the deputies admitted the presence of their influential guests might sway the decision on the peace plan. Even Mr Karadzic, who recommended the plan, described it as a catastrophe. But rather than show deference to their weighty guests, they mainly complained about the plan which requires Serb forces to give back nearly half the territory they currently control.

"It is easy for Milosevic to call on us to return our land. Bosnian Serbs have died defending it," said a member of the government speaking on condition of anonymity.

He described how Mr Milosevic had "used the Bosnian Serbs to unite Serb territories and under international pressure had abandoned his plans".

One way or the other Mr Milosevic will try to turn the outcome into a personal victory. In less than a month he has been transformed into a peacemaker. In a Byzantine twist, the west, which accuses him of being the one person most responsible for the war in Bosnia, has come to rely on him as the emissary of peace in Bosnia. He appeared to be the only one who could bring the deputies to heel.

Since the Bosnian Serbs rejected the plan last Monday despite Mr Milosevic's last minute intervention, he reportedly cajoled them and threatened to cut off their supply lines if they refused to back the peace plan.

Arriving with Mr Mitsotakis, he gave the appearance of a statesman dwarfing the worn and weary Bosnian Serb leaders. He has once again shown his chameleon-like ability to manipulate a crisis to his advantage. But Mr Milosevic appeared ready to risk widening the rift between Serbs on one side of the frontier and the other.

Mr Milosevic, since he came to power in 1987, riding a wave of Serb nationalism, has billed himself as the defender of all Serbs. But he has never tolerated dissent from his protégés, even from Serbs outside of Serbia, the very people he has claimed to protect.

"I thought he was a great fighter for Serbia. Now, I see he does not care and is willing to have us bombed," said the official of Srpska Republika, the self-styled Serb state which covers some 70 per cent of Bosnia.

In 1992 Mr Milosevic orchestrated the ousting of Mr Milan Babic, a rebel leader from Croatia who opposed the despatch of UN peacekeepers to Krajina, Serb-held territory in Croatia. This time, it has not been so easy. Too much blood has been spilt to effect a simple change of leadership to get approval for the plan.

Mr Cosic yesterday put it simply: Yugoslavia could no longer afford to fight the war. If need be, Mr Milosevic will not hesitate to jettison the Bosnian Serbs if they prove too heavy a burden for Serbia and Montenegro, already under tight sanctions and under threat of military intervention.

Bosnia-Hercegovina: the Vance-Owen timetable for peace

Ten proposed provinces

The present military position

- UN Security Council approves the plan.
- The council endorses the implementation of the plan and levels of monitoring troops based on a report by Secretary General Boutros Boutros Ghali.
- Within 72 hours: Warring parties declare troop and weapon levels, report location of front-lines and minefields and prepare for UN verification. Ceasefire put in place and remains effective.
- Within 5 days: Heavy weapons to be withdrawn from around Sarajevo under UN supervision.
- Within 15 days: All other heavy weapons also placed under UN supervision. All forces separate from front lines to establish demilitarized zones monitored by UN.
- Within 45 days: All forces return to their designated provinces in co-ordination with an agreed demobilisation.
- Restoration of infrastructure: electricity, gas, water, rail, roads, etc.
- Establishment of "free passage routes" to and from Sarajevo to guarantee passage for civilians, goods and humanitarian aid.
- Establishment of a UN-guaranteed corridor linking northern Serb-controlled areas with Serbia.
- Establishment of an interim central government in Sarajevo comprising three members each from the three ethnic groups, with the presidency rotating every four months among the three parties.
- Establishment of interim provincial governments on the basis of the ethnic composition in each province with provision that none of the three groups can be left unrepresented in any province.

Boutros Ghali urges UN war crime tribunal

By Michael Littlejohns at the UN in New York

AN INTERNATIONAL tribunal to judge war crimes committed since 1991 in former Yugoslavia should be set up under the mandatory enforcement procedures of the UN Security Council, Mr Boutros Boutros Ghali, the secretary general, proposed yesterday.

In a written report to the Council, which agreed in February to establish the court, he said a resolution under Chapter VII of the UN Charter would become "immediately effective" and all states then would be obliged to take necessary action.

The court would comprise 11 judges and sit at The Hague in the Netherlands, where the International Court of Justice is located.

The US has already prepared a list of suspected Yugoslav war criminals. This includes Mr Radovan Karadzic, the Bosnian Serb leader who last Sunday initialled the Vance-Owen peace plan. The release of Mr Boutros Ghali's recommendations on the day that the Bosnian Serb "parliament" was considering whether to ratify acceptance apparently was only a coincidence.

Responding to reservations voiced by some UN members about the propriety of creating a tribunal, the secretary general said the court was "legally justified." The Security Council had already determined that widespread violations of humanitarian law in former Yugoslavia threatened international peace and security.

Mr Boutros Ghali, himself an international legal authority, offered the draft of a 34-article statute for the court, one article of which would presume the innocence of the accused, promised speedy trial and no compulsion to self-incrimination.

The court should not be empowered to impose the death penalty and terms of imprisonment should be based on the general practice of sentencing by Yugoslav courts.

Among the offences that should be tried are genocide and complicity in genocide – a clear reference to the ethnic cleansing campaign in Bosnia which has shocked the world and helped to fuel demands for UN military measures. Charges of murder, enslavement, deportation, imprisonment, torture, rape, political, racial and religious persecution as well as "other inhumane acts" should be dealt with by the court, the Secretary General proposed.

Clinton eyes US public opinion

By Jurek Martin in Washington

THROUGHOUT the long build-up to a still imponderable denouement in Bosnia President Bill Clinton has always promised maximum consultation with Congress and a full justification of whatever actions the US undertook to the American public.

Yesterday he provided the barest glimmer of the latter. Welcoming home US troops from their humanitarian mission in Somalia, he spoke of "other missions that lie ahead," and of a world that "has not seen the end of evil."

He went on: "Some will ask why we must so often be the one to lead. Well, of course, we cannot be the world's policeman but we are, and must continue to be, the world's leader. That is the job of the United States of America."

But the word Bosnia never passed his lips. It may have been understandable that it did not do so, for no decision had been taken by the Bosnian Serb "parliament" as he spoke.

But it remains probable that within days President Clinton will either be authorising the dispatch of a substantial 20,000-plus US military contingent to peacekeeping duties in Bosnia or air strikes against Serb installations. His country will want to know why the US deems its vital interests are so much at stake for a president schooled by opposition to the Vietnam War to take such a fateful step.

> The case for military intervention can be more easily made if US action is part of a UN operation and with full allied participation

As Senator Sam Nunn of Georgia put it in a TV interview yesterday morning from Moscow, "a real challenge" faces the president. "He has to identify our strategic interests. He has to identify our humanitarian interests. And he has to express clear goals that may be tied to military action."

Mr Clinton knows, as Senator Nunn went on to say, that the case can be more easily made if US action is part of a UN operation and with full allied participation. In spite of reports from the current mission of Mr Warren Christopher, the secretary of state, to Europe of disagreements between the US and its allies, it is assumed that, in the crunch, this can be obtained.

Indeed, if Europe, already heavily criticised in the US for ducking the Bosnian problem, were to sit on its hands, or to continue to resist the alternative option of lifting the arms embargo, then Mr Clinton would probably face an impossible domestic selling job.

He may even conclude it is not worth attempting because the constituency in favour of unilateral US action is undoubtedly in the minority, according to all public opinion polls and the thrust of political sentiment.

Further uncertainty surrounds the speed at which either a UN peacekeeping force or offensive action could be put into effect. This delay may buy Mr Clinton some time to persuade his domestic audiences that he is doing the right thing but not rush. Indeed the appearance of indecision might be harmful.

The most likely course for the President would be more than one national televised address from the Oval Office together with excursions outside Washington, plus mass deployment of senior officials to make the case to various audiences.

But this process, in turn, will invite criticism on a very grand scale, with the almost certain consequence that Mr Clinton will be accused of forgetting why he was elected in the first place – to put the domestic economy back on the rails.

US and western allies yet to resolve options, says Hurd

By Robert Mauthner, Diplomatic Editor

THE US and its western allies are still at odds over what action to take if the Bosnian Serb assembly does not endorse the Vance-Owen peace plan, Mr Douglas Hurd, British foreign secretary, admitted yesterday.

While not ruling out some kind of military action such as air strikes against Bosnian Serb supply lines, failing Bosnian Serb approval of the plan, Mr Hurd said that talks last weekend with Mr Warren Christopher, US secretary of state, had not resolved which particular option should be chosen.

Mr Hurd, who was answering questions by the Commons Foreign Affairs Committee, referred in particular to reservations by Britain and other countries about the preferred US option to lift the UN embargo on arms deliveries to Bosnia.

Such a step "runs the risk of inflaming the fighting and spreading the war," he said.

Britain and France, main contributors of troops to the UN peacekeeping operation in the former Yugoslavia, have almost identical positions on the subject, as became clear in talks in London on Tuesday between their two prime ministers, Mr John Major and Mr Edouard Balladur.

Mr Alain Juppé, French foreign minister, said yesterday that, while military force might have to be used against the Bosnian Serbs if their parliament rejected the peace plan, a decision to do so could only be taken by the UN Security Council after further consultations between the main powers concerned.

Mr Juppé also told the weekly meeting of the French cabinet that US-French differences over the command of future peacekeeping forces and the possible lifting of the arms embargo on Bosnia had surfaced during talks in Paris on Tuesday with Mr Christopher.

The US had "clearly indicated" that it would ask for the lifting of the arms embargo if the peace agreement was not ratified by the Bosnian Serb assembly, a government spokesman quoted Mr Juppé as telling the cabinet. "As far as this solution goes, France has its reservations."

Mr Hurd strongly denied reports that international forces might be sent into Bosnia to impose the peace plan as long as the fighting continued and the plan had not been endorsed by the Bosnian Serbs. "We certainly would not be putting in troops to push Serb troops out of areas which they have to vacate under the Vance-Owen plan," Mr Hurd said.

This categorically contradicted a statement in Brussels yesterday by Lord Owen, one of the international mediators, that a peacekeeping force must be prepared to fight, if necessary, to make the warring parties withdraw their troops.

Mr Hurd, however, said the UN – including British – troops would do no more than monitor the withdrawal of the warring parties' forces to their designated areas, but would not be deployed until it was clear that the withdrawal was under way.

He emphasised the government had not yet made a decision on Britain's contribution to a 60,000-strong UN peacekeeping force would include 10,000 British troops were no more than "speculative."

New election in Hamburg could hit main parties

By Quentin Peel in Bonn

BOTH Germany's main political parties could end up the losers from an extraordinary legal decision to order a new state election in the city of Hamburg, the second smallest of the country's 16 Länder.

The move, ordered by the constitutional court in the city because of an "undemocratic" selection process of candidates for Chancellor Helmut Kohl's Christian Democratic Union, means a re-run of the poll held in 1991.

It is the first time a state election has had to be repeated since the foundation of the federal republic.

Yet in spite of the blame lying clearly at the door of the CDU, the biggest losers could be the Social Democrats.

The 1991 election in Hamburg, Germany's second largest city after Berlin, was won by the SPD, with an absolute majority of just one seat, but it could now face serious defections because of the disarray of the party at national level.

Although the SPD welcomed the decision yesterday, it is in chaos following the resignation on Monday of its leader, Mr Björn Engholm, and a rapid outbreak of infighting over the succession.

An immediate opinion poll in the city showed the Social Democrats gaining just 40 per cent of the votes, compared with 48 per cent in 1991.

The CDU, however, is also lagging in popularity nationally, thanks to the sharp economic recession, and the high costs of German unification. The fact that the city party has been found guilty of undemocratic procedures in its own candidate selection seems likely to lose it further support.

The same opinion poll, carried out by the Dortmund-based Forsa institute, puts the CDU on 34 per cent, one point down on 1991.

The new election therefore opens the way for widespread protest voting against the main political establishment, with probable gains for fringe parties such as the Greens and the extreme right-wing Republicans or Deutsche Volksunion (DVU).

A large proportion of non-voters is also to be expected, given the circumstances of the election.

The Greens were supported by 16 per cent of voters polled yesterday, compared with just 7.2 per cent in 1991, while non-voters showed an increase from 35 to 39 per cent.

The court decision is a serious embarrassment for Mr Kohl's CDU, which was accused of not allowing minority groups to propose alternative candidates to the party list put forward by the leadership. The party failed to observe the inner-party democracy required by the constitution, it said.

However, the SPD is in no position to exploit its position. Campaigns are gaining momentum for a whole variety of candidates for the national party leadership. The front runner is Mr Gerhard Schröder, the current premier of Lower Saxony, but he also faces strong opposition for apparent disloyalty to Mr Engholm.

Sutherland confirms candidacy for post of Gatt director-general

By Frances Williams in Geneva

MR Peter Sutherland, chairman of Allied Irish Banks, yesterday confirmed that he was a candidate to succeed Mr Arthur Dunkel who retires as director-general of the General Agreement on Tariffs and Trade at the end of June.

Trade officials in Geneva believe that Mr Sutherland, sponsored by the European Community and with American support, is likely to secure the acceptance of Gatt's 114 members to take over as head of the world trade body. However, at least two other candidates are in the ring.

Mr Sutherland told Irish state radio he was now "willing, in the event of being acceptable, to take the job".

The 47-year-old Irishman, who was EC competition commissioner between 1985 and 1989, was initially reluctant to be considered for the post, citing family reasons.

Peter Sutherland: now willing to be considered for Gatt post

He said yesterday he had changed his mind after being telephoned by Mr Jacques Delors, European Commission president.

Mr Sutherland's name has been formally proposed by the European Community in a letter to Mr Balkrishan Zutshi, India's Gatt ambassador, who is in charge of consulting Gatt members on Mr Dunkel's replacement.

Mr Julio Lacarte Muro, formerly Uruguay's ambassador to Gatt, and Mr Luis Fernando Jaramillo, former foreign minister of Colombia, are also declared candidates.

Geneva diplomats said yesterday that Mr Zutshi was hoping for a consensus by the next meeting of Gatt's governing council on May 12. However, an extraordinary meeting of Gatt members will be needed, probably in June, to formally appoint the next director general.

Mr Sutherland said yesterday that the Gatt job was "an opportunity to do something very worthwhile," in particular in bringing about a Uruguay Round agreement.

The global trade talks, more than two years overdue, are supposed to finish by the end of this year, when the US administration's proposed negotiating authority expires.

EC in change of heart on openness

By David Gardner in Brussels

THE European Commission yesterday took steps to overturn its secretive policy on access to information, suggesting that most EC documents should be available to the public on demand.

The move is part of the "openness policy" through which the Community is trying to rebuild its credibility with European citizens.

Foreign ministers of the Twelve will consider the proposals on Monday. They are likely to be refined before endorsement by EC heads of government at the Copenhagen summit on June 21-22.

The proposals would turn EC policy on access to documents on its head.

Although the Commission itself is a relatively permeable institution, the formal position until now, as one Dutch official put it, is that "it's all secret unless we decide it isn't."

Under the new dispensation, all documents would be public unless their diffusion prejudiced privacy, commercial confidentiality, national security or monetary stability.

Between now and the Copenhagen summit there is likely to be considerable scrapping over grey areas of confidentiality.

Mr Joao de Deus Pinheiro, the commissioner behind the plan, for instance, wants the working documents of the EC institutions – which reveal thinking on policy as it germinates – made public. Some member states and commissioners are bound to resist this.

The proposal would bring EC institutions into line with the law in the Netherlands, France, Greece and, Denmark.

EC states risk action on passport checks

By Andrew Hill in Brussels

ACTION will be taken against member states which resist the abolition of passport checks on people travelling within the EC, the European Commission warned yesterday.

Mr Raniero Vanni d'Archirafi, the EC internal market commissioner, said the Commission had not changed its tough line on border controls, in spite of recent comments by the new French government suggesting that the conditions for lifting internal controls on people will not be met before the end of this year.

The Community missed the January 1, 1993 deadline for lifting controls. Mr Vanni d'Archirafi has set a new deadline of December 1 for the nine continental European countries which have signed the Schengen free-travel agreement, and has indicated that other countries – Britain, Denmark and Ireland – will have to follow suit by the end of the year.

Yesterday, celebrating 100 days of the new internal market, the commissioner said that if member states could not demonstrate they were making "constant progress" towards that objective, then they might have to be encouraged by Commission legislation, or possibly legal action, during the second half of the year.

Mr Vanni d'Archirafi said he thought the balance-sheet for the rest of the single market – aimed at ensuring the free movement of goods, services, capital and people across the 12 member states – was "fairly positive," although he said there still appeared to be some resistance to liberalisation of the EC's lucrative public procurement market.

The commissioner, who also demonstrated the EC's computerised database on the single market, said one key to making the market work was distributing more information about the opportunities available.

● The European Commission has yet to act on promises to speed up the most difficult EC competition inquiries, officials admitted yesterday.

A new accelerated procedure, modelled on the strict deadlines for EC merger investigations, has been put into effect for joint ventures, and a backlog of ageing competition dossiers is being cleared.

But the EC competition directorate has taken advantage of a change of commissioner to delay the imposition of new deadlines in all other cases. Sir Leon Brittan, who gave up the competition portfolio in January, promised faster decisions for all complaints from April 1. Sir Leon made the commitment in a valedictory speech on the future of EC competition policy last December.

The Commission's reluctance to speed up procedure will disappoint many competition lawyers, who are frustrated by the sluggishness of some inquiries into alleged cartels and illegal dominance of the EC market.

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Commission opens doors for E Europe

By Lionel Barber in Brussels

THE EUROPEAN Commission has recovered its nerve. A new package of measures to accelerate the political and economic integration of six eastern European countries into the EC is bolder than expected, a rebuff to criticism of the Community's response to the collapse of communism.

The proposals support improved, across-the-board market access for east European products; faster dismantling of EC tariffs; more Commission-led lending to finance infrastructure; and a commitment to eventual membership.

None of these offers goes as far as the Poles, Czechs, Hungarians, Slovaks, Bulgarians, and Romanians would like, and they fall far short of the privileges of full membership. But the initial response is positive.

A Polish official described the measures as "ambitious", and argued that it was unrealistic to expect bigger moves by the EC. A Hungarian diplomat agreed: "We have a very positive reaction. The acceptance of future membership as a shared objective is a very important political signal."

The Commission's proposals reflect a new alliance between Sir Leon Brittan and Mr Hans van den Broek, the EC commissioners responsible for external economic and political relations respectively. The two have apparently set aside earlier rivalry and championed the cause of freer trade.

"Improved market access is the most effective way of encouraging economic growth and the transition to market economies," proclaims the document, which attacks the notion that increased imports from eastern Europe will cause lasting damage to EC members caught in recession.

It points out that the EC moved from an Ecu1bn ($1.22bn) trade deficit in 1991 to an Ecu1.7bn surplus in the first 11 months of 1992. Furthermore, eastern Europe accounted for just over 3 per cent of total EC imports (less than Norway), yet the EC accounted for more than half the total trade of eastern Europe.

The chief trade liberalisation elements are:

- Lifting customs duties on industrial goods such as cars and chemicals by the end of 1994 – a two-year advance. Scrapping tariffs on "sensitive" industrial goods at the end of the second year after the agreement comes into force.
- Moving from a quota-based system which sets rigid targets for imports into less restrictive ceilings. This means east Europeans will not automatically face higher tariffs if they breach import targets.
- Advancing by six months plans to reduce levies by 60 per cent on meat, dairy produce and vegetables from eastern Europe. Quotas are to be raised by 10 per cent, too.
- Scrapping duties on steel imports at the end of the fourth year – ahead of schedule but subject to new agreements with eastern Europe.

Brussels officials predict a battle with member states over market access if the document is to win approval at next month's EC summit in Copenhagen. France, Spain and Portugal are all nervous about greater market access; Germany and Britain want a generous approach, if possible with more "front-loading" so there is an immediate pay-off for east European exporters.

The political proposals are also proving controversial. Mr van den Broek lost his fight to insert 1995 as the date for a review conference to assess the east European's progress toward EC membership.

Another suggestion is to invite a committee of eminent personalities from western and eastern Europe to report to a future EC summit on how to foster closer ties.

IMF puts conditions on Hungary credit accord

By Nicholas Denton in Budapest

HUNGARY has reached a "gentleman's agreement" with the International Monetary Fund which clears the way for a new credit facility and the country's return to financial respectability.

Under the accord, agreed in Washington this week by Mr Ivan Szabo, the finance minister, and Mr Peter Bod, the central bank governor, Hungary promised to bring the country's wayward public-sector deficit down from more than 7 per cent of gross domestic product in 1992 to 5.5 per cent next year.

The Hungarian authorities plan a package of tax increases and spending cuts. Some will come into effect this year but most will bite only in 1994.

Government officials were confident the measures would pass through parliament this month, allowing the formal signing of the accord with the Fund afterwards. An upward statistical revision of Hungary's GDP will make the targets easier to meet.

In return the IMF will disburse a credit of SDR560m ($394m) over this year and next. Clearance will also release a $100m tranche of the World Bank's structural adjustment loan to Hungary.

The agreement ends a year of embarrassment for Budapest since the Fund called the alarm on Hungary's budget deficit suspended the country's three-year SDR1.14bn credit.

The resumption of IMF funds will have a marginal direct impact on the financing of Hungary's $21.4bn gross foreign debt, the largest per capita in eastern Europe.

The National Bank of Hungary, the central bank, has had little difficulty in raising a record $2bn through international bond issues in the past six months.

But the IMF's blessing is psychologically important. It should make international capital markets "even softer" for Hungary, Mr Frigyes Harshegyi, NBH deputy president, said yesterday.

The economic benefits of budgetary restriction may come at a heavy political price, however, for Hungary's conservative coalition government. The package would hit voters' finances in the run-up to scheduled elections in spring 1994 which the opinion polls say the government will lose heavily.

Hungary's difficulties with the IMF began last year when recession, a collapse in taxable profits at banks and companies, and tax evasion, caused government finances to buckle.

Brittan's plan for Gatt deal

By Quentin Peel in Bonn

THE European Community will today ask the US to ease market access for European exporters, as part of a "fair and balanced" settlement of outstanding disagreements in the Uruguay Round of trade liberalisation talks.

Sir Leon Brittan, the EC commissioner for external relations, is looking for significant concessions from the US in areas such as textiles and services, in order to persuade EC member states that the whole package – including liberalised farm trade – is acceptable.

His idea seems to be to put together a broad enough package deal to persuade the French government, in particular, to drop its objections to the farm trade compromise negotiated by the European Commission last year.

Brittan: wants US to provide easier access to its markets

After talks in Bonn yesterday with Chancellor Helmut Kohl Sir Leon held out the hope of EC and US trade negotiators reaching "some kind of breakthrough" in the Gatt negotiations in time for the Tokyo summit of the Group of Seven industrialised states in July.

A timetable of negotiations, including a meeting including Canada and Japan, has been agreed with that aim in mind.

Sir Leon is flying today to Washington with Mr Jacques Delors, Commission president, for meetings with both President Bill Clinton and Mr Mickey Kantor, the US trade representative, at which both sides hope to reopen the remaining issues in the Gatt trade talks.

"We have a long way to go, but I have no doubt of the American desire to go the whole way," he said. "They have joined me in setting a series of dates for meetings which will show our resolve. The aim is to reach some kind of breakthrough in time for the G7 summit in Tokyo," said Sir Leon.

A final agreement would have to be reached by December 15, the date when the "fast track" negotiating authority granted to the US administration by Congress finally expires. "I really do believe this deadline is the last one," Sir Leon said.

He said the EC would now focus on the key question of market access. US import tariffs were in general much higher than EC tariffs, with textiles and services two areas showing a big disparity.

"We want to show the people of Europe that we gain something from an agreement," Sir Leon said. He is simply turning a blind eye to French demands for renegotiation of the agricultural part of the EC-US package, insisting that a deal has been done.

Central Europe's big mistake: lack of bank reforms

By Anthony Robinson, East European Editor

THE failure of post-communist central European states to make bank reform and re-capitalisation of the banking system top priority has emerged as their biggest single policy error, according to a progress report on economic transformation in central Europe.

Published by the European Commission and the London-based centre for Economic Policy Research (CEPR), the report notes that price liberalisation and financial stabilisation programmes have been successful in the Czech republic, Hungary, Poland and Slovakia but that further institution building is required to liberalise labour, housing and above all capital markets.

It criticises the "fast track" central European reformers for "over-emphasising stabilisation at the expense of systemic transformation which has itself concentrated unduly on privatisation at the expense of wider structural change."

While stabilisation policies managed to prevent hyper-inflation, they exacted an unduly heavy price in output and employment. The steep fall in output was exacerbated by the collapse of Comecon trade and the failure to establish a payments clearance system to manage trade between the former Soviet satellites. The unexpectedly sharp decline in economic activity was due largely to "the unanticipated negative supply side effects as many large state owned enterprises effectively forced banks and suppliers to roll over past loans and capitalise arrears so that a greater than intended real credit squeeze hit the small emerging private sector disproportionately".

In this the experience of central Europe differs markedly from that of the less developed countries where the application of a standard policy package managed to halt chronic inflation almost instantaneously without serious short term output costs.

To overcome the specific problems faced by reforming post-communist economies the authors of the report, Prof Richard Portes, director of the CEPR and Prof Mario Nuti, call on international institutions and governments to implement a six-point programme involving recapitalisation of the banks; incentives for better management of state enterprises; the introduction of modern VAT and other taxes; incomes policies linked to creation of effective social safety nets; creation of secure legal frameworks for foreign investment and greater regional co-operation to restore lost intra-Comecon trade.

Economic Transformation in central Europe. CEPR, 25-28, Old Burlington Street. London W1X 1LB. £23.50

Loans for Poland approved

By Anthony Robinson

THE World Bank has approved $750m of new loans to Poland in another move which strengthens the country's attractiveness to foreign investors. The latest loan agreements follow approval last week by parliament of the privatisation of more than 600 enterprises. Six weeks ago, the International Monetary Fund agreed a $660m standby loan after the parliament approved a tight budget.

The bank is lending $300m to help modernise Polish farming and $450m to support the Polish government's enterprise and bank restructuring and privatisation (EBRP) programme. The new loans bring the bank's commitment to Poland to $3.5bn since 1990.

The EBRP programme has been designed to speed privatisation of the banking system, improve banking supervision and refinance the bad debts of enterprises which clog bank balance sheets. Last month, Wielkopolski Bank Kredytowy became the first big Polish bank to be privatised. The 20 per cent of shares allocated to small investors was heavily oversubscribed.

Christopher Bobinski adds from Warsaw: Thousands of Polish teachers yesterday underlined the problems caused by tight IMF-imposed budget deficit limits by striking for higher pay which the government cannot finance without breaching the 5 per cent budget ceiling limit.

US calls for Asian Bank loan review

By Victor Mallet in Manila

THE US yesterday called for an independent review of the Asian Development Bank's loan portfolio in a policy statement which underlined US reservations about a proposed doubling of the ADB's capital and reaffirmed sharp differences between Washington and Tokyo over the bank's future.

Mr Jeffrey Shafer, designated by President Bill Clinton as US assistant treasury-secretary for international affairs, argued at the ADB's annual meeting in Manila that Asian countries owed their economic success more to the investments arising from their own thriftiness than to money from abroad.

The ADB, he said, should be thrifty too. "It need not – and it cannot – go on rapidly increasing its lending year by year," he said. "More consideration of the scale of lending and the adequacy of current resources is needed before a decision on a capital increase can be taken. There is time for this."

Mr Shafer said the bank should put more stress on reversing the declining quality of its projects than on expanding its portfolio.

Although the Clinton administration's policy and staff dealing with multilateral financial institutions have yet to be finalised – Mr Shafer left soon after his speech to attend his Senate confirmation hearing in Washington – the US delegation in Manila did emphasise the Clinton themes of helping the poor and protecting the environment.

"Growth as measured by the GDP accounts can become an obsession, the environment can become degraded in its pursuit, leaving future generations worse off, not better off," Mr Shafer said. "This is unsustainable development."

Other western shareholders in the ADB – with their own national budget problems – gave qualified support to the US call for thrift. Germany, for example, backed the idea of an independent examination of the ADB's performance but said the bank needed more capital to expand its activities in poorer countries.

Mr Kimimasa Tarumizu, the Japanese ADB president, has called for a doubling of the bank's present capital of $23bn. He has been strongly supported by the Japanese government and developing Asian countries such as Indonesia which receive ADB loans.

Yesterday Mr Yoshiro Hayashi, the Japanese finance minister, gave unequivocal support to the proposed capital increase in his speech to the ADB governors. "The bank's ... own calculations indicate that its ordinary capital operation may reach the lending limit some time in the second half of the next year at the latest," he said.

Asked what he thought of the US proposal for an outside inquiry into ADB loans, Mr Hayashi said an internal task force, as proposed by Mr Tarumizu, was the "sound and orthodox way".

China and India, which each borrow about $1bn a year from the ADB in ordinary loans, yesterday reiterated their appeals for credit from the ADB's soft-loan window, the Asian Development Fund.

Although China and India are poor enough to qualify for ADF assistance, donors have so far refused to allow them access to funds because they fear the demands from the two largest populations in the world would be too heavy.

Sanctions bite hard on hungry Iraqis

Border closure is an attempt to halt economic collapse, writes James Whittington

DRESSED in black robes, Shia women from Iraq sit on the pavement in the Jordanian capital, Amman, *selling illegally* imported cigarettes. Twenty, 30, sometimes 40 women line up in groups on al-Hashimi Street, in front of the main taxi rank and in view of King Hussein's palace, to earn a few extra pennies for their hungry families in Baghdad.

Squeezed by nearly three years of sanctions against Iraq, the women say they have had no choice but to make the 14-hour drive by taxi from Baghdad to Amman every fortnight or so for their families to survive.

Yesterday the taxis were halted. The Baghdad authorities closed the border in what was described as a temporary measure so they could withdraw the 25 Iraqi dinar banknote. With inflation rampant in Iraq, the notes, printed in Switzerland before the Gulf war, circulate widely outside the country and are valued more highly than the locally printed currency issued since.

Iraqi holders of the ID25 notes were given a week to exchange them. The border closure, to be kept in place until Monday, is a sign of Baghdad's desperation to regain control over its collapsed economy.

"There is no work in Iraq, the rationing system is not enough to live on and prices are too high," says one of the women, who did not wish to give her name. An estimated 1,000-2,000 Iraqis travel between Jordan and Iraq each day.

Already this week the Baghdad government has announced stiff duties on foreign travel. A fee of ID15,000 (around JD180, or £163, on the Amman black market) is to be charged to Iraqi citizens, with the exception of diplomats and students, on leaving the country.

The measures indicate that the Iraqi authorities may be losing their economic battle. Living conditions of the population, in particular the people in the northern governates and the Shias, continue to deteriorate. United Nations officials and foreign diplomats privately predict instability in the country unless the economy recovers soon.

Market prices of basic necessities have increased by more than half in the past three months and prices for all foodstuffs remain many times higher than before the UN sanctions were enforced in August 1990 after the invasion of Kuwait.

The price of wheat is 72 times higher than in July 1989, rice 45 times, cooking oil 32, lentils 88, milk 68, sugar 59 and tea 60 times.

In addition to this hyperinflation, the purchasing power of the population has been drastically reduced. The average minimum monthly wage is ID150, rising to an average ID400 for civil servants, but Iraqis claim that at least ID1,000 a month is required to feed a small family.

Mass starvation is avoided by the Iraqi government's monthly rationing system, which was increased by 20 per cent this spring. UN officials in Baghdad point out that this is not enough to prevent severe malnutrition among the poorest. According to a UN report on the humanitarian needs of Iraq, the monthly ration quotas of flour (9kg), rice and oil (1.75kg each) and sugar (1.5kg) provide only 68 per cent of minimum energy requirements.

Although the distribution of subsidies is effective in most areas, northern governates such as Mosul and Kirkuk are reported to receive only 6 to 10 per cent of their ration entitlements. In view of this, the report estimates that nearly 1.7m Iraqis, from a population of around 18m, need food aid for an extended period.

Iraqi travellers to Amman say that those in the former middle class now have two or more *daily jobs and are* forced to sell personal assets and family treasures to survive.

But many *are unable to cope.* There has been an unprecedented rise in the number of destitutes and unemployed. *According to the UN report,* Iraq's ministry of labour and social affairs has registered 450,000 destitute persons whose monthly *income* is less than ID50. A further 263,000 have applied to be included.

JORDANIAN businessmen and currency dealers counted their losses yesterday after Iraq withdrew from circulation old, premium-priced banknotes in an attempt to shore up the Iraqi dinar at home, Reuter reports from Amman.

The ID25 notes have been hoarded in Jordan and the Gulf by speculators waiting for the fall of Iraqi President Saddam Hussein or the lifting of United Nations trade sanctions to boost the sharply devalued currency.

"I have been wiped out overnight with all my small savings," said Mr Zein Ayyad, 40, who had put most of his JD8,000 ($11,700) savings into the now-withdrawn Iraqi currency. "I do not believe there is a house in Jordan that has not been hurt by this move."

Baghdad closed its border with Jordan at midnight and gave Iraqis a week to exchange the ID25 notes, known as the "Swiss version" or "originals", for those printed in Iraq since it invaded Kuwait in 1990.

Jordanians had no place to turn for compensation. "Outside speculators in possession of 'Swiss dinars' have been caught with their pants down... the move clearly was to stop them gaining," said Mr Mifleh Aqel, a senior Jordanian banker.

"It will boost the purchasing power of the dinar held inside Iraq by reducing the money supply and prevent the holders of outside notes from using them to increase inflation on goods."

Traders said the local branch of Iraq's state-owned Rafidein Bank refused to take the "Swiss" notes from them and *transfer them to their* accounts in Iraqi banks. Calls from anguished dealers poured into Jordan's central bank asking if Amman had any plans to intervene to help them change the Iraqi money.

"Originals" have also been amassed by traders who delivered goods to Iraq. "We have official papers proving we took it out in return for goods we gave them," said Mr Ibrahim Salem, a food merchant, showing Iraqi certificates.

Baghdad's move angered many Jordanians who backed Iraq during the Gulf war. "All this support for Iraq has come to nothing," said Mr Ali Odeh, a disgruntled investor.

Chris Patten, HK governor, meets Daniel Rostenkoski, chairman of the house Ways and Means committee, in Washington

No firm US promise for Patten

By Jurek Martin in Washington

MR Chris Patten, the governor of Hong Kong, said yesterday he had received guarded assurances from the Clinton administration that it hoped its policies towards China would no longer be subject to an annual confrontation with Congress.

Reporting on three days of talks with administration officials, including President Bill Clinton, and members of Congress, he conceded it was politically inevitable that renewal of China's Most Favoured Nation trading status with the US would this year be hedged around with conditions concerning external and internal Chinese policies.

Given the change of government in Washington, he repeatedly said, US policy "is unlikely to be what it was last year." He had put Hong Kong's case for an unconditional renewal of MFN and added that it was possible to "devise conditions that do less damage" to the colony. The US, he emphasised, was "still making up its mind" on China.

But Mr Patten said that he had been told – though not by Mr Clinton himself – that the US would prefer "that the annual MFN debate did not become the centrepiece of US policies towards China."

His discussions have included sessions with the congressional sponsors of the Mitchell-Pelosi bill attaching conditions to MFN renewal, ranging from human rights and missile sale policies, on which the administration must take a position by June 2.

Congresswoman Nancy Pelosi, the California Democrat, said she was impressed by Mr Patten's arguments but doubted they would much affect the immediate legislation. The governor said he never expected to change the congresswoman's view.

Mr Patten said he had argued that there were US means other than MFN renewal to press for acceptable Chinese policies on weapons proliferation. He noted that the UK, France and Australia were among those nations pursuing "bilateral dialogues" with China over human rights. Trade issues could also be dealt with on their specific merits.

Mr Patten also distanced himself from a recent delegation to Washington from the Hong Kong General Chamber of Commerce, increasingly influenced by Beijing, which had warned of severe consequences for the US economy.

Concern grows over health of Li Peng

By Tony Walker in Beijing

MR LI PENG, China's 65-year-old premier, has not been sighted in public for two weeks, prompting speculation that he may be suffering from a more serious illness than first indicated.

Chinese officials explained his failure to keep an appointment with visiting Philippine President Fidel Ramos late last month by saying that he was suffering from a cold, and that he had been taken to hospital.

The Chinese language Hong Kong newspaper Ming Pao reported on Monday that Mr Li had been suffering from heart problems. Mr Wu Jianmin, foreign ministry spokesman, has been endeavouring to dampen speculation about Mr Li's health, telling reporters: "There's no point speculating about... He's just got a cold. That's very common."

Western officials discount a "political illness". Mr Li was recently re-confirmed at a session of China's parliament, or National People's Congress, to a second five-year term. No hint has appeared that he might be in political difficulties. Health details of China's leadership are normally closely guarded secrets.

China's premier was photographed playing tennis on April 20 with Mr Goh Chok Tong, the visiting Singapore prime minister. There was no indication then of any infirmity, although photographers noted that Mr Li remained on court only for about 15 minutes.

His disappearance has inevitably revived discussion about the health of Mr Deng Xiaoping, China's 88-year-old senior leader, who was last sighted in Shanghai in January during the spring festival.

Chief of UN health agency re-elected

By Frances Williams in Geneva

DR Hiroshi Nakajima, controversial director-general of the *World Health Organisation*, was yesterday re-elected for a second five-year term as head of the 185-nation UN agency.

But the vote, 93 to 57, displayed unexpectedly strong disapproval of his handling of WHO affairs, making it likely that his second term will be as turbulent as the first.

The vote at WHO's annual meeting followed a heated debate on a report by external auditors which revealed "shortcomings" in financial controls relating to contracts for executive board members. Dr Nakajima, a Japanese, was nominated for re-election by the 31-member executive board by 18 votes to 13, amid accusations by the US and other donor nations that Japan had used threats and inducements to win developing country votes.

Western countries opposed to Dr Nakajima have made clear that they will insist on sweeping reforms in management and financial accountability at WHO, which has a two-year budget of $1.8bn. Mr Walter Broadnax, deputy secretary-designate at the US Health Department, warned in a speech that "only managerial and leadership changes can prevent further erosion in programme effectiveness".

Britain called for "a different management culture" to ensure funds were used "with probity and provide good value for money". Canada, France, Denmark and the Nordic countries were also highly critical.

On Tuesday Dr Nakajima promised reforms "to tighten up management and *administration* and to revitalise WHO's structure to achieve greater efficiency, *transparency and* accountability".

A reorganisation already in train will curb the powers and influence of three key members of staff implicitly criticised by the audit report. But Dr Nakajima is also criticised by western donors for lack of leadership and vision and by *many* of his staff for autocratic management. Critics say these concerns will not be assuaged by administrative changes, however desirable these are.

Bahrain bids for S Africa business

By Mark Nicholson in Cairo

A SENIOR delegation from Bahrain's central bank and finance ministry will next week make an official visit to their counterparts in South Africa, taking what officials in Manama call a "major step" towards developing trade and investment ties between the two countries.

The visit will mark the most substantial economic and diplomatic overture towards South Africa from the Gulf since Pretoria began dismantling apartheid and crowns a series of initiatives, led by Bahrain, to attract South African investment into the region.

A trade and investment accord was signed in Bahrain on Tuesday between Kanoo, one of the Gulf's biggest trade groups, and Omega Investments, a Cape Town-based business consultancy. Bahrain officials say the May 10 visit by representatives from the Bahrain Monetary Agency promises to develop such ties. "We're flying the flag, and putting up markers for the future," said one.

Bahrain has no diplomatic relations with Pretoria, though ministers from both countries have engaged in a flurry of exchange visits in the past year. And while Gulf countries still technically maintain the internationally applied sanctions against South Africa, reforms in the republic have encouraged Bahrain, in particular, to ignore them. "There is acquiescence to consider them no longer there," said Mr Tareq Almoayed, Bahrain's information minister.

The Bahrain delegation intends to examine South Africa's exchange controls and trade policy with particular attention to the banking sector, in the hope of tempting big South African banks to establish branches in Bahrain. The arrival of a batch of South African banks would be a considerable fillip to the island, which has seen its pre-eminence as the Middle East's banking sector eroded in recent years.

Farm group presses G7 over Gatt

By Kevin Brown in Sydney

AUSTRALIA is trying to organise a meeting of the Cairns Group of agricultural exporting nations to put pressure on the Group of Seven industrialised countries to complete the stalled Uruguay Round of world trade talks.

Mr Peter Cook, trade minister, has called for a meeting of trade ministers from the 14-country group on the eve of the next G7 summit, expected to take place in Tokyo in July.

Officials said the government *believes that a formal* meeting of the group would step up international pressure *on the G7 nations to resolve* the remaining areas of disagreement, which include liberalisation of farm trade.

The group, chaired by Australia, was formed to press for the extension of Gatt rules to agricultural trade, which had been excluded in previous rounds. It has said it will not accept a Uruguay Round deal which fails to achieve reductions in farm support, border controls and tariff protection.

The group, includes New Zealand, Canada, Argentina, Brazil, Chile, Colombia, Uruguay, Fiji, Thailand, Indonesia, Malaysia, Brunei and Hungary.

Ecuador shows lead in international anti-corruption drive

By Michael Holman in Berlin

ECUADOR is expected to become the first government to sign a new international anti-corruption code of conduct and restrict the award of official contracts to local and foreign companies which have made the same pledge.

The move has been initiated by Transparency International, the anti-corruption organisation launched in Berlin yesterday. Transparency International officials hope that three or four other countries will also soon form what are termed ""islands of integrity" as part of the campaign against corruption.

Mr Alberto Dahik, vice president of Ecuador, told a conference attended by more than 60 government officials, businessmen and development experts that corruption was as great a threat to economic growth in developing countries as Aids. A substantial proportion of Ecuador's $13bn debt had been wasted on unnecessary contracts and projects and accompanying kickbacks. Examples from Ecuador's own experience, he said, included the purchase of nine locomotives and two aircraft worth $120m.

Mr Peter Eigen, chairman of Transparency International, said the organisation would help "erode the taboo" that surrounds public discussion of corruption, and lead a coalition spanning governments, development agencies, the business community and citizens in the fight against it.

"The creation of Transparency International reflects the intense frustration and anger among government and business leaders in many countries about the impact of corruption," said Mr Eigen, a former World Bank official. "The concern is global in origin and nature. The crisis of corruption is not the exclusive domain of international development, but has reached critical proportions in the so-called developing world as well."

The business community has generally been cautious over Transparency International's request for moral and practical support, partly from concern that committing themselves to the code of conduct would leave them at a commercial disadvantage over rivals which dismiss the code.

Yeltsin delays Tokyo visit

A PLANNED visit by Russian President Boris Yeltsin to *Japan this month has been put* off until later in the year, Reuter reports from Moscow.

Mr Sergei Svistunov, a presidential spokesman, said yesterday: "The visit has been postponed by *mutual agreement.*" Mr Yeltsin caused a political storm in Japan last year by postponing a visit just four days before it was due to start.

The president had been expected to visit Japan at the end of May. Interfax news agency said the trip could be rescheduled for September or October. Japanese newspapers on Tuesday said Mr Yeltsin might call off the trip because of a territorial row between the two countries and political tensions at home.

Japan shocked over death in Cambodia

By Charles Leadbeater in Tokyo

JAPAN'S commitment to play a wider role in United Nations *operations is facing its stiffest* test as the nation reacted with shock to the killing of a Japanese policeman on peacekeeping duty in Cambodia.

Mr Haruyuki Takata, a 33-year-old civilian policeman, was killed on Tuesday in an ambush on a six-vehicle convoy of peacekeepers. Nine other personnel with the UN transitional authority in Cambodia (Untac) were wounded in the ambush, four of them Japanese. The ambush is being blamed on the Khmer Rouge, which is boycotting elections to be held on May 23-27.

Japan's involvement in Cambodia followed a painful political debate over the conditions *in which it would join UN* peacekeeping operations. The killing threatens to reopen that debate.

Leaders of the governing Liberal Democratic party tried to calm alarm about the risks to unarmed peacekeepers. Television news programmes were specially extended to discuss the killing, which dominated coverage in most newspapers.

Mr Yohei Kono, chief cabinet secretary, tried to head off calls for the government to consider withdrawing Japan's personnel, a move which the leadership recognises could cause political embarrassment with Japan's international partners.

Mr Kono said the 1991 Paris peace accord for Cambodia was still in force even although it had been violated by the incident. The peace accord is the basis for Japan's involvement in peacekeeping operations in Cambodia.

Mr Kono, speaking after the first meeting of a government task force set up to decide Japan's response to the killing, said the government was calling on Untac to strengthen security for Japanese personnel, relocate civilian *police officers* to safer areas and gather all Japanese volunteers in Phom Penh, *the capital*, to discuss security.

However, the government *announced* that more than 50 Japanese monitors for the election would be sent as planned next week.

Japan is also sending an 11-strong team to investigate the killing. It is likely to press the UN to review the character of the peacekeeping operation in Cambodia in the light of increasing Khmer Rouge violence in rural areas.

Japan has 600 military personnel in southern Cambodia, mainly building roads, and 70 civilian police volunteers.

Khmer Rouge guerrillas have attacked a Chinese army unit in central Cambodia, the first time the Maoist faction has turned its guns on the country that supported it for decades, Reuter reports from Phnom Penh.

The Khmer Rouge fired shells, rockets, mortars and small arms at the Chinese *engineer* base and adjoining Polish logistics facility in Kompong Thom province on Tuesday night, Mr EricFalt, of the UN peace force said yesterday.

In Beijing the foreign ministry, without naming the Khmer Rouge, rebuked its one-time ally for the attack. "We express our deep regret over the shelling of the Chinese engineering battalion in Cambodia," it said.

Mr Falt said about 200 Khmer Rouge fired an estimated 200-300 rounds of artillery and recoilless rifle shells at the peacekeepers' positions during the two-hour attack.

Arabs agree to extend peace talks

SYRIA said yesterday that Arabs had decided to extend their current round of peace talks with Israel for a third week, Reuter reports from Damascus.

"We did not find difficulty in accepting the extension of talks for one week at the request of the United States, especially in light of the US interest to push the peace process forward," said Mr Farouq al-Shara, foreign minister.

Mr al-Shara said the negotiations, which resumed in Washington on April 27 after a four-month suspension, had not made any significant progress.

In Rome, delegates to multilateral talks on Middle East economic issues discussed plans to promote trade and improve transport as the US and Italy pledged aid to the occupied territories.

World Bank loan check plan rejected

By George Graham in Washington

WORLD BANK shareholder countries have sent management back to the drawing board to produce a new set of measures for improving the implementation and supervision of loans.

Executive directors representing the member countries rejected a first-draft action plan called "Next Steps" as an inadequate response to a commission's report which documented an alarming deterioration in the performance of the World Bank's loan portfolio. The commission was chaired by Mr Willi Wapenhans.

"We worked closely with other member countries in determining that the first response was not satisfactory, and we joined with the others in sending management back to the drawing board for further work," Mr Lawrence Summers, the US Treasury under-secretary in charge of international affairs, told a House of Representatives committee yesterday.

"We made clear that the initial response went insufficiently far to respond to concerns about the need for more adequate supervision of bank projects, and much more emphasis on implementation rather than on approval of loans," he said.

The Wapenhans report said that more than 75 per cent of World Bank projects showed acceptable performance, but noted a steady deterioration in portfolio performance. The proportion of projects with significant problems rose from 11 per cent in 1981 to 20 per cent in 1991.

The World Bank has been caught in the unfavourable spotlight cast in recent weeks on the European Bank for Reconstruction and Development, its sister multilateral bank. Some members of Congress are treating the administration's request for funds for the International Development Association, the concessional loan arm of the World Bank, with as little enthusiasm as they are showing for EBRD funding.

But the Clinton administration, although at first hesitant about the size of the IDA contribution negotiated by its predecessor, is throwing its weight behind the request, involving a $1.25bn (£796m) US contribution this year.

US reviews drug sentencing policy

By George Graham

MS Janet Reno, US attorney-general, has ordered a review of federal prosecution and sentencing policy for drug offences in a move which may head off a revolt by federal judges.

Many senior judges are refusing to hear drug cases because of their objections to the sentencing rules. Judge Harold Greene, a prominent federal judge in Washington, last week rejected the minimum sentencing rules as unconstitutional.

Both Ms Reno, who as state prosecutor in Miami introduced an innovative rehabilitation programme for first-time drug offenders, and Mr Lee Brown, the former New York City police chief appointed last week to head President Bill Clinton's drug control office, are expected to shift the focus of drug policy away from enforcement towards treatment and prevention.

Tougher prison sentences have been the linchpin of US policy for drug offences over the last 10 years. Sentencing rules effective from 1987 require a sentence of at least five years for possession with intent to distribute 5 grams of crack cocaine.

Janet Reno: attempting to head off revolt by judges

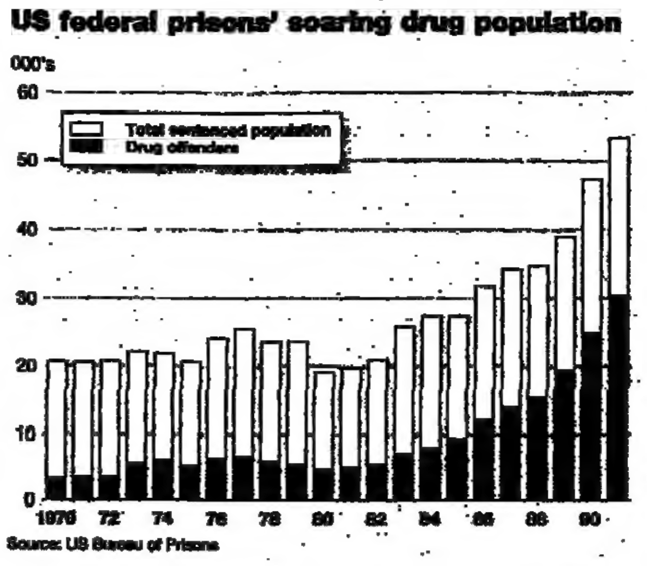
Anyone convicted of selling drugs within 1,000ft of a school must serve at least one year in prison without parole.

Critics of the rules say they can lead to excessive sentences for the small fry in drug deals, and compel judges to order inappropriate prison sentences for non-violent drug users who deal to support a drug dependency and who might respond better to treatment.

But others argue that tougher sentences are needed to clamp down on drugs, and that the mandatory rules make it harder for criminals to escape prison by plea bargaining.

"Mandatory minimums are based not on an unthinking reflex but on sound philosophy; effective deterrence depends both on severity and on certainty of punishment," said Mr Bob Martinez, head of the Office of National Drug Control Policy under former President George Bush.

US federal prisons' soaring drug population



Source: US Bureau of Prisons

Some of the harshest critics of the mandatory sentencing rules, however, are the judges who have to administer them, and who complain that they simply do not work.

"It results in some tremendous inequities in the sentencing process, and judges are uncomfortable with that," said a spokesman for the Judicial Conference, the governing body of the federal judicial system.

The prison system, too, is coming under increasing pressure. Over the last 10 years the federal prison population has nearly tripled. This results almost entirely from drug offenders, who accounted for 58 per cent of federal prisoners at the end of 1991 against 26 per cent a decade earlier.

Over the same period the average sentence for drug offenders convicted in federal courts rose from four to seven years, while the average sentence for violent crime fell from 10½ years to 7¼ years.

In the state system, the percentage of drug offenders in the prison population has tripled to 22 per cent.

Ontario pay threat enrages unions

By Bernard Simon in Toronto

CANADA'S powerful civil service trade unions are gearing up for a fight over demands by provincial and local governments for concessions aimed at curbing budget shortfalls.

Tensions are most apparent in Ontario, where a social-democratic government, elected in 1991 with the backing of organised labour, has called for C$2bn (£1bn) in wage cuts. The government has warned that 40,000 jobs could be at risk if unions failed to agree a belt-tightening "social contract" ahead of the provincial budget later this month.

Ontario, which has been one of the heaviest borrowers on international capital markets this year, risks having its credit rating cut if it fails to bring its 1993/94 budget deficit down from a projected C$16bn-C$17bn to C$10bn-C$12bn.

Three of Canada's four biggest unions represent public sector workers. Led by the 407,000-member Canadian Union of Public Employees, they are generally more militant than their private-sector counterparts.

Mr Andrew Jackson, economist at the Canadian Labour Congress, said traditional ties between the labour movement and the New Democratic party – which governs in Ontario, British Columbia and Saskatchewan – were unlikely to deter unions from acting in their members' interests.

The governments appear to be banking on limited public support for the unions. In a provincial election in Newfoundland earlier this week the ruling Liberal party won a big victory on a platform of public-sector austerity.

Under legislation passed last year, federal civil servants' pay scales are frozen for two years in return for almost total job security. But Mr Donald Mazankowski, finance minister, said in last week's budget that Ottawa wanted to reopen the job-security deal.

Democrats hold Aspin seat by tiny margin

By Jurek Martin in Washington

THE White House breathed a small sigh of relief yesterday when the Democratic Party narrowly held on to the House of Representatives seat from Wisconsin occupied for 22 years by Mr Les Aspin, now defence secretary.

Mr Peter Barca's margin – 50-49 per cent, or about 700 votes – compares with Mr Aspin's 58-42 per cent victory last time. Mr Barca's Republican opponent, Mr Mark Neumann, was threatening to demand a recount.

In another special election in a very conservative district of Ohio, the Republicans won easily.

Although by-elections often favour the political opposition, a combination of a defeat in Wisconsin together with the likelihood of the loss next month of the Democratic Senate seat from Texas will not have helped President Bill Clinton's political authority at a time when he needs it most.

NEW YORK ART AUCTIONS

Warhol works disappoint

THE biggest art sales of the year – of impressionist, modern, and contemporary paintings and sculpture – produced mixed fortunes for Sotheby's and Christie's in opening sessions in New York this week, writes Antony Thorncroft.

Sotheby's sold only 53 per cent of the 78 lots on offer by value, for a total of $8.8m (£5.7m). There was negligible bidding. The great disappointment was Andy Warhol – with only two of 12 paintings by him finding buyers. "Old Telephone", painted in 1961, made $552,500, below estimate.

It was a bad evening for Mr Charles Saatchi, who was trying to sell his version of Carl Andre's bricks, "Equivalent VI". The Tate Gallery has never been forgiven for paying £6,000 for Equivalent VIII, another group of firebricks by Andre, but the price now looks cheap. Mr Saatchi was hoping for $300,000 for his version; in the event they failed to sell.

Paintings by Franz Kline and Clyfford Still, both of which were expected to top $1m, were also not sold. The more experimental sculpted works did best, with auction records for Mark di Suvero's creation of weathered timber, rope and nails (which fetched $470,000), and for Donald Judd's construction of 10 stainless steel units fitted to a wall at six-inch intervals ($233,500).

In contrast, Christie's was encouraged by its Tuesday auction, selling all the top lots. The most important contemporary painting on offer this week, "Number 19, 1948" by the leading abstract expressionist artist Jackson Pollock, in which he dripped and poured paint on to the canvas, sold for $2.42m, slightly above its top estimate, to a private European collector.

A 1967 painting by Francis Bacon, "Study for a portrait in a revolving chair", was on target at $1.2m, while "White Brushstroke I" by Roy Lichtenstein, in which he parodied the spontaneous brush stroke which characterised abstract expressionism, made $728,500.

There was keen bidding by European and American private collectors at the Christie's auction. Other names to sell were Robert Rauschenberg, whose "Nettle" fetched $717,500, and Jasper Johns, whose 1980 "Untitled" realised $807,500.

The prices are well below levels of four years ago but they suggest that more modest estimates attract buyers back to the market.

Beige Book eases economic concern

By Michael Prowse in Washington

RECENT economic reports may have led to unnecessary anxiety about US economic prospects, the Federal Reserve's latest Beige Book survey of regional economic conditions implied yesterday.

The generally upbeat report cites a "modest improvement in economic conditions across much of the nation" last month, following a dip in activity in March caused mainly by severe winter weather. The survey was conducted in the weeks up to April 23.

Manufacturers in most districts reported increases in sales and orders, with near-capacity production at some car and steel plants. However, no region expected a flurry of hiring as increased output was coming mainly through productivity gains and overtime.

The Fed survey was also upbeat about consumer spending, reporting a modest rebound in retail sales in most areas after widespread declines in March due to the bad weather. The revival was led by durable items such as furniture and home appliances.

Most districts also reported strong or improving residential housing markets last month. However, commercial real estate remained in the doldrums in most areas.

The relative optimism of the survey follows a series of gloomy statistics, including sharply reduced growth in the first quarter and recent steep falls in the purchasing managers' index and leading economic indicators.

Employment figures for April, due out tomorrow, will be scrutinised for evidence of a pick up in activity after the subdued first quarter.

Germany, France challenge UK in aerospace table

By Paul Betts,
Aerospace Correspondent

BRITAIN has again been overtaken by France as the west's second largest aerospace industry, after the US, and is now also being challenged by Germany at the top of the European aerospace league.

Mr Tim Sainsbury, the minister for industry, yesterday told a parliamentary inquiry into the UK aerospace industry that the sector's £11bn turnover last year was slightly less than the £11.32bn turnover of the French aerospace industry.

This was the second consecutive year the UK has trailed France, but Britain would have regained the number two position if France's significant participation in the European space programme was excluded, he said.

However, he acknowledged that both the French and German industries had received greater direct support from their governments compared with their UK counterpart.

Germany has mounted a significant drive in the last three years to regain a leadership position in the European aerospace industry through a restructuring around the Daimler-Benz group.

Mr Sainsbury said the UK government had provided since 1979 £1.22bn in launch aid support for seven aerospace projects involving British companies.

Mr Sainsbury indicated the DTI intended to maintain the same broad level of research and development support during the next three years in line with the £56.9m it provided under the Civil Aircraft Research and Demonstration Programme over the last three.

This sum did not include an additional £21.5m British contribution to the European Transonic Windtunnel project aimed at giving the European civil aircraft industry a large testing facility at Cologne, in Germany, competitive with US windtunnel facilities.

The industry's total exports amounted to £7.7bn last year accounting for 9 per cent of all UK exports of manufactured goods. With total imports of £5.2bn, the sector contributed about £2.5bn to the country's balance of trade last year, the DTI told the committee.

Governor signals doubts on ERM

By Peter Marsh,
Economics Correspondent

A FURTHER distancing of Britain from early re-entry into the European exchange rate mechanism was signalled yesterday by Mr Robin Leigh-Pemberton, the governor of the Bank of England.

Mr Leigh-Pemberton, in what amounts to a swan-song speech in New York two months ahead of his retirement, said: "Exchange rate stability is the result of convergence in underlying economic policies and performance. It cannot be achieved by actions in the exchange markets alone."

The speech was interpreted as an effort by Mr Leigh-Pemberton, governor for the past 10 years, to downplay the significance of the ERM as a possible future plank of UK economic policy.

It is likely to irritate many of the UK's European partners, who see early re-entry by sterling into the mechanism as vital to efforts to propel the continent towards economic and monetary union.

Although global coordination of economic policies was important, Mr Leigh-Pemberton said in a speech delivered to the Institute of International Bankers that the "primary international responsibility of each country is to set its own house in order".

In a passage underlining the unease about the ERM, which is shared by many in government circles in the UK since Britain's forced exit from the ERM last September, Mr Leigh-Pemberton said: "Attempts to move exchange markets in directions that are not consistent with underlying policies nearly always end in disappointment."

The speech underlines the scepticism shared by some Bank officials that the ERM discipline could ever have been construed as a complete replacement for tough domestic policies aimed at price stability.

Mr Leigh-Pemberton did not discuss the details of any future UK economic policy. However, he said Britain should rely on focusing clearly on "medium term goals of price stability and budgetry consolidation".

In a pointed lack of reference to moves to create a single currency for Europe, which some Bank officials think may be premature, Mr Leigh-Pemberton said the efforts to establish an economic and monetary union should primarily be to "remove unnecessary regulations, open markets to competition, and eliminate barriers to trade."

Mr Leigh-Pemberton said the leading nations should step up efforts to improve bank supervision and more efficient banking payments systems.

Union accuses Hoover over Scots plant

By Robert Taylor,
Labour Correspondent

HOOVER, the domestic appliances manufacturer, was accused yesterday by the AEEU engineering union of misleading its workforce over the future of its British operations.

The union said it had written to Mr Leonard Hadley, president and chief executive of Maytag, the parent company in the US, asking him who was running Hoover.

Earlier this year the AEEU negotiated an efficiency deal with Hoover that resulted in the transfer of vacuum cleaner production from Dijon, France, to Scotland. Last week doubt was cast over that agreement when it became clear that the company is reviewing its European operations.

The union said that Mr Hadley and the company's newly appointed European president Mr Gerald Kamman appeared to have contradicted each other over the future of Hoover's Scottish plant.

In his annual statement to the shareholders' meeting in Iowa, US, on April 27 Mr Hadley told them that the move from Dijon to Cambuslang was "proceeding" as planned.

"We took a 1992 charge of $53m to cover the expenses of this European reorganisation, but we expect to recover those charges in the future as we will eliminate duplicate overheads, reduce labour costs and realise economies of scale", he added.

But only a day earlier Mr Kamman wrote to every Hoover employee in Europe to say due to financial losses "nothing will escape review", including the transfer of production from Dijon to Scotland.

"On the day before you confirmed to your shareholders the transfer of production to Scotland the new European management implied that this may not be the case", the union wrote to Mr Hadley.

The company was unavailable for comment yesterday.

Britain in brief

Plan to alter finances for small business

Mr Howard Davies, director-general of the Confederation of British Industry, the employers group, outlined a six-point plan to change the way small businesses are financed in Britain so that they can survive cash-flow problems during recovery.

His proposals, outlined to the British Venture Capital Association, are to form the basis for developing a more formal CBI policy in the next few weeks. The points were:

- Speed up payment of money owing to small businesses by big companies and the public sector, often the worst offender.
- Wider use of factoring, where companies sell their invoices to finance houses, often subsidiaries of banks, which then collect the money.
- Banks should be more willing to swap debt for equity.
- The venture capital industry needed to look at its investment pattern.
- A replacement for the Business Expansion Scheme.
- A successor to Unlisted Securities Market - alternative markets are being considered.

Airline pilot wins job case

An airline pilot was awarded more than £10,000 damages for unfair dismissal after he advised holidaymakers whose flight to Malta was twice diverted to Belfast to complain to the tour operator.

Captain Andrew Stevens was dismissed by InterEuropean Airways after he urged passengers to write to Aspro – one of Britain's top five package holiday companies – after the flight was diverted to Northern Ireland to pick up extra passengers.

An industrial tribunal ruled he was right to advise the angry passengers how to complain. His employer, InterEuropean Airways, is to pay £10,615 compensation.

Laboratories may be sold

Mr Michael Heseltine, trade and industry secretary, is considering a sale of his department's five laboratories, which generate business worth more than £100m a year.

He said the government was reviewing the future of the National Physical Laboratory, the National Weights and Measures Laboratory and the Laboratory of the Government Chemist near London; the National Engineering Laboratory, East Kilbride, Strathclyde; and the Warren Spring Laboratory, Stevenage, Hertfordshire. The review will cover rationalisation, franchises, and privatisation.

UK reserves rise $760m

Britain's official gold and foreign currency reserves rose by $760m last month, bringing reserves at the end of the month to $41,658m compared with $40,898m at the end of March.

Economists suggested that the government had taken advantage of the stronger pound last month to replenish its reserves of foreign currency.

The underlying change, which includes Scottish electricity privatisation proceeds of $2m, but excludes proceeds from the quarterly tender of 3 year Ecu Treasury Notes, was a rise of $62m.

April house prices up 1.6%

House prices in the UK rose by 1.6 per cent in April the largest monthly increase for more than four years, Halifax Building Society said yesterday.

The country's biggest mortgage lender said that the seasonally adjusted figures: "could be a sign that house prices may well start to increase earlier than most analysts have anticipated.

"The society said: "It is probable now that house prices will show a small increase in 1993 as a whole and could rise in line with average earnings in the economy next year."

NEWS: THE MAASTRICHT TREATY

Experts say Major can ratify despite setback over Maastricht

By Robert Rice,
Legal Correspondent

LEGAL experts said last night there were no obvious constitutional objections to the government using the royal prerogative, and effectively by-passing parliament, to ratify the social protocol.

Lawyers also yesterday suggested that the courts would be reluctant get involved in the issue and that anti-Maastricht campaigners had no grounds for seeking a judicial review at this stage.

The *government* yesterday accepted an amendment to the Maastricht Treaty Bill (draft legislation) that calls for the deletion of the protocol on the social chapter. This led to claims that the government cannot legally ratify the treaty.

But Sir William Wade, a constitutional expert, said that generally international treaties can be ratified by royal prerogative provided they do not require any changes to domestic legislation.

Constitutional experts believe the government can ratify the social protocol by royal prerogative because parliamentary ratification is only required for treaties which *involve changes to British law.*

As Britain has opted out of the social chapter the social protocol does not require any changes to our current employment legislation.

Mr David Vaughan QC, a European law expert said great play was made by those who believed parliamentary ratification was required for the social protocol of the terms of the 1978 European Assembly Elections Act.

Section 6(2) of that act provides that no effect can be given to any protocol or treaty which results in any increase in the powers of the European Assembly without the approval of the UK parliament.

But Mr Vaughan said that it was clear from Hansard that at the time the 1978 act was passed parliament was not so much concerned with preventing extra powers being given to the European parliament as with preventing any decrease in the powers of Westminster.

Parliamentary approval would therefore have been required for opting-in to the social chapter but not for opting out, because opting out has no effect on Westminster's powers in the social/employment field.

Lawyers also believe Euro-sceptics may face insurmountable problems in trying to persuade the courts to hear a legal challenge.

Sir William Goodhart QC said it was difficult to see who would have the necessary standing to bring an application for judicial review. To have sufficient standing an applicant would have to show some interest which had been adversely affected by a government decision.

Mr Vaughan agreed, and added that a legal challenge could only happen once the *Maastricht* bill was in force.

A challenge by a taxpayer on the grounds that the government has no parliamentary authority to spend taxpayers money on contributions towards the expenses incurred by EC institutions in operating the social chapter might get off the ground.

But the crown clearly had power to spend money on treaty obligations and the courts would be very reluctant to say the *government could* not, he said.

None of this could happen until the bill was law.

Another blow for the fragile Tory morale

By Philip Stephens

RETREAT on Wednesday. Defeat on Thursday. Thus Mr John Major's opponents were celebrating last night his climbdown on the Maastricht treaty and the forecast Conservative defeat in today's by-election (to replace an MP who died earlier this year).

Only 10 days ago Mr Major was leading his ministers from their Whitehall bunkers in a rival *set of celebrations*. The economic green shoots had taken root, the political tide had turned. The prime minister was back in charge.

But yesterday he was forced to acknowledge that the courts would have the final say on Maastricht. The cheers this time came from the curious, not to say unholy, alliance of Labour, Liberal Democrat and Tory Euro-sceptic MPs.

No one should be *surprised* by the change. Britain's politicians are more susceptible than most to manic swings in mood. The flavour of the English football terrace is nurtured daily by clashes in the House of Commons.

But the odds are that, just as the euphoria which greeted the declaration of an end to the recession was overdone, so too will be the gloom which will follow the Maastricht retreat and the loss of the by-election at Newbury, west of London.

That loss, of course, must not be taken *for granted*. The lesson from last year's general election is that the consensus can be wrong. No one any longer trusts opinion polls.

But holding Newbury after the cataclysms of the past year would be an extraordinary achievement for the *prime* minister. The 9.2 per cent swing required by the Liberal Democrats is well within the range of their by-election victories during the last parliament. The government is unpopular, even in prosperous Newbury, which sits astride the corridor of investment drawn to the M4 motorway during the 1980s.

Against that background a decision by the voters that it was too risky even in a by-election to turn out the Conservatives would carry a chilling message for the opposition parties. If the government can escape even a serious protest now, it can do what it likes before the next general election. The temptation for political commentators would be to go home in the knowledge that permanent Conservative government had arrived.

So the assumption at Westminster is that by Friday Mr Major's already fragile parliamentary majority will be reduced to 19 and that the Conservatives will *lose* control of perhaps half a dozen or more counties in the local elections.

Nor could the eloquence of Mr Douglas Hurd's speech hide the fact that the government had been forced into an damaging retreat on the social chapter. *Few* at Westminster doubt that Maastricht will in the end be ratified. But the courts will decide when and how.

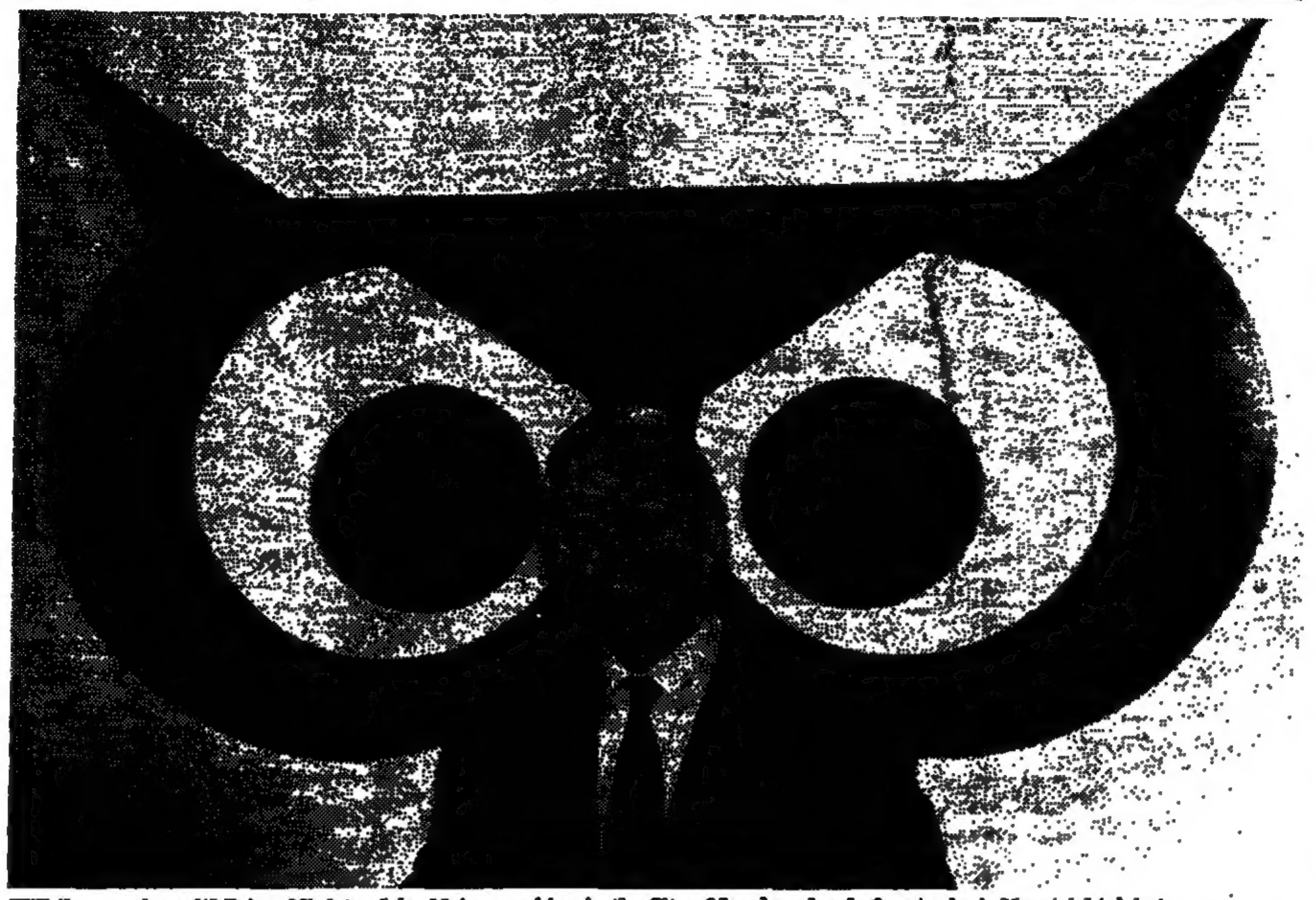
So the fragile confidence of the Tory back benches has taken another knock. There will be the usual demands for inquests, for the government to get a grip. The *Liberal Democrats*, likely to be the biggest gainers in the local elections, will celebrate their return to the political limelight after a year in the shadows.

But what of Mr John Smith's Labour party? It can revel briefly in the government's discomfort over Maastricht. Lady Thatcher's planned appearance today to renew her call for a referendum should add to its cheer. Labour, consigned to oblivion in Newbury, might do better than expected in the county elections.

But a year after its fourth election defeat it is displaying neither the energy nor the innovation needed to transform its longer term political fortunes. Lest that judgment is deemed partisan, it was offered by a prominent member of the shadow cabinet.

This weekend the Labour party's newly created policy forum will consider three documents designed to shape their policies on the economy, Europe and the constitution.

If there is a single theme it is that the opposition must frame its instinctive trust in the state in terms of its role in liberating the individual. The idea is developed most convincingly by Mr Tony Blair, the shadow home secretary, in his introduction to the paper on the constitution. Mr Gordon Brown, the shadow chancellor, meanwhile, has discarded more of the economic baggage which the party carried during the 1980s. But overall, the documents leave little sense the opposition is making a decisive break with the past. Nor do they dispel the impression that each attempt by Mr Blair to define its future as a modern social democratic party is being confounded by backroom plotting among the trades union barons to preserve their empires. Mr Smith's supporters may have less to cheer than Mr Major's.



Will the ayes have it? Prime Minister John Major speaking in the City of London ahead of yesterday's Maastricht debate

All sides see hope after amendment

By Ralph Atkins

DEPENDING on who is being asked, the opposition Labour party's amendment – as approved by MPs yesterday – could throw a legislative spanner into the Maastricht bill that halts British ratification.

Or it could force the government *to sign up for the social* chapter.

Or it can simply be flung aside as ratification moves ever closer.

The immediate consequence is that the protocol on the social chapter agreed at Maastricht, which included an opt-out for Britain, will not be part of the legislation approved by the House of Commons. But the effect of this is far from clear.

The cases put forward by pro and anti-Maastricht MPs are as follows.

- Euro-sceptics argue that the amendment's approval means legislation passed by parliament will differ significantly from the Maastricht treaty the government proposes to sign.

They will seek a judicial review of ministers' use of the royal prerogative – the formal mechanism used to sign treaties.

Specifically, Tory Euro-sceptics believe the government will not have the power to contribute to the administrative costs of the social chapter, which the government will probably still have to help pay.

Euro-sceptics had looked originally to an amendment focusing only on the social chapter's administrative costs.

"On the Beaufort scale, that had an uncertainty factor of three," says Mr James Cran, *unofficial Euro-rebel whip.* "But amendment 2 has an uncertainty factor of eight."

- The government argues that, even though the protocol has been excluded from domestic law, it still stands in the treaty. Britain can ratify the treaty *because the protocol* imposes no burdens on the country that require domestic legislation.

The financial costs to Britain of administering the social chapter are insignificant. They can probably be charged to the Treasury's consolidated fund under the European Communities Act 1972. So the amendment has no effect.

- Labour accepts broadly the government case that Maastricht's ratification has not been stopped. But Mr George Robertson, Europe spokesman, says a "series of minefields" have been created that can only be solved by accepting the social chapter.

Mr Robertson says there could be a case for judicial review on ratification. There might also be challenges in the European Court of Justice by British workers who demand that the social chapter's provisions should apply to them.

- The centrist Liberal Democrats, who also back the social chapter, argue that the 1978 European Communities Act means the Commons must approve extra powers for the European parliament.The effect of the amendment is to override that principle – offering a fresh avenue for legal challenge.

Hoover has joined the infamous group of companies which have made large public relations errors, writes **Gary Mead**

A blunder on a corporate scale

It looks as though Hoover's free flights offer will join that select, but infamous list of blunders which brought leading brand names low. Firestone Tire and Rubber, AH Robins (maker of the Dalkon Shield contraceptive) and Perrier are among companies which suffered similar blows. But judging by its performance so far, Hoover appears to have learnt little from other companies on how to mend its reputation.

In the memorable words of Leonard Hadley, chairman of Maytag (Hoover's US parent), the UK company's "free flights" promotion was like a "bad accident and you can't determine what was in the driver's mind". In 1992 Hoover offered any UK customer who spent a minimum of £100 on its products, the chance of two free flights to either Europe or the US.

The response was like a tidal wave. The media have since been full of stories of irate customers who paid their money, filled in the application form and have still heard nothing from Hoover or its contracted travel agencies, in many cases months after making their initial purchase.

At the end of April Maytag announced a net loss of $10.5m (£7m) in the first quarter of 1993, after taking a $30m special charge to cover the unexpected cost of the promotion. Hoover's European president and two senior executives were also dismissed over the controversial offer.

The saga, which still has some way to run since those hoping to fly to the US will be able to take up their flights until April next year, is reminiscent of other damage limitation exercises. Take Firestone's decision to recall 10m of its 500 series radial tyres in October 1978. This came after pressure from the US National Highway Traffic Safety Administration, which acted only after receiving 14,000 consumer complaints, including at least 29 fatal traffic accidents and hundreds of property damage accidents involving cars using the Firestone 500.

'One gets the impression in the Hoover example that the company has gone for immediate damage limitation rather than taking a more strategic approach to it'

Throughout the messy episode the company continued to deny, against public anxiety, that there was anything wrong with the product. The US government did not order the recall, but Firestone was perceived to drag its feet. Analysts estimated then that bad publicity cost Firestone 3 per cent of its 25 per cent share of the multi-billion US tyre market.

AH Robins also made mistakes. By 1973 independent researchers were linking its Dalkon Shield with a variety of medical problems, including fatalities. Consumer complaints were gathering force, but Robins criticised complainants rather than asking itself if the product was at fault. The US Food and Drug Administration asked Robins to stop marketing it until tests were completed. By the time it was cleared in December 1974 Robins was facing a welter of individual legal actions. By September 1980 the company sent a letter to 200,000 doctors saying the IUD should be removed. By then, the damage to the company's image was irreparable. On February 29 1984 three top executives from Robins were rebuked by a federal judge in Minneapolis. Instead of accepting the judge's remarks, the Robins executives took legal action against the judge; and lost.

That same year Robins took an extraordinary charge of $615m against outstanding claims and later filed for Chapter 11 bankruptcy. Eventually the company was bought by American Home Products in 1988. In his book Marketing Mistakes, Robert Hartley pinpoints one of Robins' basic problems. "It was entering a market in which it had no previous experience whatsoever... [it] had not a single obstetrician or gynaecologist on its staff... it rushed the product to market."

Colin Gilligan, professor of marketing at Sheffield business school, is just one critic of Hoover's recent reaction to crisis. "One gets the impression in the Hoover example that it has gone for immediate damage limitation rather than taking a more strategic approach to it," he says. "When Perrier recognised it faced a significant problem [traces of benzene found in its bottled water in February 1990, resulting in a worldwide product recall] it understood that you can't try to hide things from the public or the media, because the key issues are going to emerge sooner or later.

"Hoover has not looked at the broader picture but has responded in almost knee-jerk fashion."

Most consultants agree there is one fundamental requirement to avoid a corporate blunder affecting consumer perceptions turning into a public relations disaster. According to Peter Cunard, partner of Tolman Cunard, strategic communications advisers: "The first rule in any crisis management is be completely open, because if you are not it is going to come back and hit you between the eyes."

Hoover has taken some steps towards opening up by admitting there has been a problem. And it has issued a rash of press releases promising that all those who took up its free flights offer will eventually get on to an aircraft. But Hoover refuses, on grounds of "commercial sensitivity", to disclose the precise number of people who applied for the offer.

Consumers participating in the offer – and shareholders for that matter – surely want to know the number. If only 5,000 have applied, $30m should easily cover the bill. But if 300,000 have applied, then is $100 per person really sufficient even now to get them all on board an aircraft? From its responses to inquiries, Hoover still appears to believe that withholding important information will not be damaging to consumer confidence.

"It's a casebook which I am sure will be taught in communication skills classes in years to come," says Cunard. "Hoover's first failing seems to me that it did not appear to have a checklist which had on it 'what if something goes wrong?' It's a standard formula for anybody linked to marketing. Let's say there is another disaster and an aeroplane went down loaded with Hoover passengers. What about that scenario? Is the onus then on Hoover to do something for the relatives? The evidence so far is that that checklist was not there. What they cannot calculate and I do not suppose they ever will, is the damage to the Hoover name hereafter."

What characterises successful companies in these circumstances, suggests Gilligan, is management recognition that they have an image problem, that they have to take decisive action and that secrecy is not going to pay off.

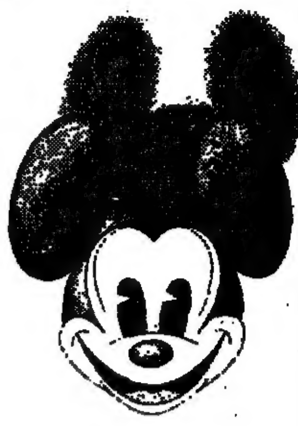
"Taking those points together, they then work out how they are going to respond strategically, which in the case of Perrier was to take the brand off the shelf completely, and keep the public informed via the media. Hoover can't take the product off the shelf but the parallel is that its response appears to have been characterised by a degree of indecision and a denial of the magnitude of the problem it was facing.

"That has not been helped by comments from one or two people within Hoover, that the consumer was being rather foolish in expecting to get something for nothing," Gilligan says.

Japan enters the world of fantasy

Robert Thomson samples the delights of Tokyo Disneyland

A Japanese cowboy politely cleared the way for Mickey Mouse and Scottish dancers in their clan tartan practised steps for a 10th anniversary parade around the meticulously clean, yen-paved streets of Tokyo Disneyland.



Euro Disneyland may be struggling to establish its identity, but Tokyo Disneyland's success has prompted the Japanese managing company, Oriental Land, to plan a marine-theme Disney park adjacent to the original.

The marketing of Disney in Japan was aimed at what Toshio Kagami, Oriental Land's senior managing director, describes as a "deep feeling for fantasy" among Japanese, who were not culturally intimidated by the US-manufactured icons and wanted undiluted Disney.

"Japanese have a good feeling for fantasy. When they come to Disneyland it is like the Japanese tea ceremony. There are rules, roles and symbolism. Japanese know that when they come here, they are in the US and they play that role, that fantasy," Kagami said.

Video game makers have tapped a similar desire for role-playing leisure. Hayao Nakayama, the president of Sega, said that US and European software buyers prefer quick-thrill competition scenarios, while games allowing players to take on a new role are more popular in Japan.

"These games require more thought, more attention to detail. There are some game maniacs in the US who like the role-playing type, but it's the common thing in Japan," Nakayama said.

For a culture stressing awareness of duties and in which the company name comes before the family one, the desire to "escape" from these roles into a new identity or fantasy setting is understandable. But it is often important that the fantasy role be as carefully signposted as that of the job description.

Another theme park, the Huis Ten Bosch, is a recreation of what, in the popular imagination, is a Dutch village, not far from Nagasaki. Instead of Adventureland and Tomorrowland, the Dutch park has Utrecht, a restaurant district, Kinderdijk, a pastoral setting with mandatory windmills, and Spakenburg, a port town.

Holland Dutch Village Corporation, which runs the park, eventually hopes 10,000 people will submerge themselves in a new personality by living permanently in the village. In the first year of operation to March, it attracted 3.86m visitors and expects to profit from the government's aim to increase leisure time and make Japan a "lifestyle superpower".

The Dutch village in Nagasaki will struggle to match the success of Tokyo Disneyland. Expected to attract 10m visitors a year, the park had just over 16m in 1991, about 90 per cent of them repeat visitors. Oriental Land says attendance was slightly lower last year for the first time since its opening, a decline blamed on the souring of the economy.

"If you look at the falling profitability in other sectors, our 2 per cent decline was pretty good. In some ways, it is a good thing, as we were over our capacity and that affects the quality of people's fantasy experience," Kagami said.

There's a two-hour wait at the weekends for the most popular roller-coaster, Splash Mountain, and queues of 40 minutes or more for the other "white-knuckle" rides. And there's still a crush at the souvenir counters for the Mickey ears and for plates embossed with the "Sharing Disney Dreams since 1983" slogan.

In the mid-1970s, when negotiations began between the Walt Disney Company and Oriental Land, run by Mitsui Real Estate and Keisei Electric Railway, both sides debated whether the park should be somehow made more Japanese than the American original.

But Oriental Land says the Tokyo version is profitable precisely because it did not attempt to link Goofy or Donald Duck to traditional Japanese culture. One employee who experienced Euro Disney found it "too European" and another suggested the Japanese would be uneasy seeing traditional screens on Cinderella's castle.

Disneyland's continuing success has encouraged non-entertainment companies to diversify into theme parks. Nippon Steel has built Space World on the southern island of Kyushu and there's a year-round indoor beach on another old steel company site near Tokyo.

Sanrio, a gift and greeting card company, which built Puroland, about 40 minutes from Tokyo, is striving to create an instant. Disney-like tradition and ethos around a cloyingly cute cat called Hello Kitty.

Sanrio claims that, at Puroland, customers "learn to love", "exchange their hearts" and are "spiritually uplifted", none of which offers a Disney-like escape. Perhaps that is why attendance fell 16 per cent to 1.5m last year.

PEOPLE

Non-executive directors

■ **John Hunter Maxwell** (above), group chief executive of BPB Industries, at ALLIANCE & LEICESTER.
■ **Tony Heaford**, formerly a partner at Touche Ross, at MR DATA MANAGEMENT GROUP.
■ **James Leek**, group chief executive of Caparo Group, as chairman at AMBERLEY GROUP.
■ **David Allday** at USM TEXON.
■ **Gordon Howe** at DEBENHAM TEWSON & CHINNOCKS HOLDINGS.
■ **Graeme Odgers**, the new chairman of the Monopolies and Mergers Commission, has resigned from DALGETY.
■ **Martin Gilbert**, a founding director and chief executive of Aberdeen Trust, as deputy chairman of PRIOR, of which Aberdeen Trust is a shareholder.
■ **Simon White**, md of Kleinwort Benson Investment Trusts, at JOS HOLDINGS.
■ **Blaise Hardman** at LONDON FORFAITING.
■ **Alex Anderson**, a director of Smith & Williamson Securities, at FRIENDLY HOTELS.
■ **David Jacobs** has resigned from JOHN I JACOBS.
■ **Angela Widdows** at BARR & WALLACE ARNOLD.
■ **John Hancox** (below), a former md of Charterhouse Tilney, at ANDREW INDUSTRIES.

Richard Ramsay to run Ivory and Sime's City office

Ivory and Sime, the Edinburgh-based fund management company, has appointed Richard Ramsay, 41, as an executive director to run its newly expanded City office and its private client business.

Ramsay has had a long association with Ivory and Sime in his former capacity handling corporate finance clients at Hill Samuel and Co and, since 1988, at Barclays de Zoete Wedd.

He was responsible for most of the company's investment trust flotations and reconstructions and is a director of one of Ivory and Sime's investment trusts. He also played a part in the privatisation of Scottish Power.

The former head of the company's private client business, David Nichol, 45, who retired at the end of December to run a family farm in Scotland, was the last of Ivory and Sime's "old guard" following a well-publicised defection of directors in 1990.

Alan Munro, managing director, says Ramsay's appointment is intended to help raise the company's profile in the City of London: "It's the first point of contact for new private client and institutional client business".

Lazard snaps up Knapton

Peter Knapton, the most recent in a long line of senior defections from Invesco MIM, has joined Lazard Investors in the newly created position of chief investment officer.

Knapton, 43, who had been managing director of Invesco's wholesale business in the UK, has known Jimmy West, chief executive of the London-based fund management group, since the late 1970s when West was running Globe Investment Trust and Knapton Temple Bar Investment Trust. Both trusts were part of the Electra group of funds.

Having joined Invesco two and a half years ago as head of UK equities "to sort out a particular problem the group had in that area", Knapton is reluctant to talk about the reasons for his departure.

David Verey, chairman of Lazard Brothers, says the decision to create the position at Lazard Investors, which manages around £4.5bn of institutional and private client monies, was "opportunity-driven".

■ **Merrill Lynch** is beefing up its European fixed income research in London with the appointment of Ifty Islam, gilt strategist at Barclays de Zoete Wedd, and Darren Williams, fixed income analyst at UBS.

Islam and Williams will join the team headed by Richard Woodworth, manager of economics and fixed income research in London, and by Mike Rosenberg in New York. Rosenberg has responsibility for the firm's fixed income and currency research. Further appointments are expected to follow as Merrill is keen to strengthen its non-dollar research and trading side.

■ **Colin Kirkby** is appointed deputy md, international, at MIDLAND BANK; he is replaced as head of non-bank financial institutions by Geoff Rutland.
■ **Richard Fellows**, formerly a director at Henderson Administration, has been appointed head of investment management and to the board of LEOPOLD JOSEPH & SONS.
■ **Roger Hocking** has been promoted to commercial director and Stephen Fox appointed director of finance of HOMEOWNERS FRIENDLY SOCIETY.
■ **Miles Buttrick** has been appointed treasurer of COVENTRY BUILDING SOCIETY; he moves from Coopers & Lybrand in London.
■ **Lindsay Town** has been appointed director, capital markets, corporate banking division for LLOYDS BANK in New York.
■ **Susan Syme** has been appointed finance director of Griffin Factors, a MIDLAND BANK subsidiary.
■ **James Charrington**, formerly investment sales director for Save and Prosper Broker Services, has been appointed sales director of MERCURY Fund Managers.
■ **Jimmy Burns** has been appointed a director of STEWART IVORY & Co.
■ **Roland Bourgeois** has been appointed md of RENAULT Financial Services; he moves from a similar job in the Netherlands.

Dorling Kindersley appoints in US

Dorling Kindersley, the recently floated publisher of highly illustrated reference books, has appointed an American to become chief executive of its New York-based publishing subsidiary. John Sargent, 34, currently president and publisher of Simon & Schuster's children's book division, will be responsible for both adult and children's lists and will report direct to the DK board in London.

The UK group, long a successful licenser of books to other publishers in the US, began to publish there under the DK imprint in 1991, and the American publisher now accounts for about 18 per cent of group sales. This autumn it will publish 77 titles, including the American Horticultural Society Encyclopedia of Gardening (the US version of the the UK's best-selling Royal Horticultural Encyclopedia).

TECHNOLOGY

Banking on flexibility

Working from home has several advantages, especially when disaster strikes the office, says **Della Bradshaw**

When a dumper truck of explosives shattered the 52 floors of London's NatWest tower less than two weeks ago, 1,300 employees at the bank lost their workplace. The impact was thought-provoking, to say the least, says Duncan Peel, senior executive in the UK branch banking human resources department. "It makes you realise what you can actually do when you haven't got a desk to sit at."

For National Westminster, flexible working practices put in place throughout the 1980s meant the bank was better able to deal with the problem, believes Peel. These included staff working shorter hours and others working from home.

Although the main thrust between NatWest's policy was to retain expensively-trained and high-calibre staff, many big organisations are now looking at working from home as a means of cutting overheads and even of keeping the business going in the event of a headquarter's disaster, such as a fire or a bomb.

As a result, working from home, which has traditionally been seen as "slightly cranky, eccentric and craft-based," according to Chris Moller, managing director of the Cambridge-based consultancy Home Office Partnership, has been added to the corporate agenda. Even the terminology has shifted, from "teleworking" to "flexible working".

He believes that in many cases the moves are a formalisation of the "taking work home in a briefcase scenario", which people have been doing informally for years. Most people who work outside the traditional office environment are skilled professionals who are used to working independently. And most are men.

Peel believes flexible working can be introduced with as little technology as the telephone. Others believe recent developments have made home-working a much more appealing proposition.

"The confluence of technology has really made it viable," says Richard Nissen, managing director of Business Space, which provides business services in central London. He points to three specific developments.

The first is laptop computers, especially notebooks which can be taken from home to the office and plugged into "docking stations". Software which enables remote users to phone the corporate database and download files, or even alter data held at corporate headquarters, is widely available.

Second, fax modems are now available so that facsimile messages can be sent from a notebook PC.

Third, advanced phone services – mobile phones, radio pagers, voice mailboxes and call diversion facilities – have eased communications. High-speed data lines – particularly the now near-ubiquitous ISDN (integrated services digital network) services – mean that diverting a call from one city to another can be as swift as diverting one across the office.

"The thing that has made most difference for us is computer-integrated telephony," says Neil Harris, of the Digital Equipment Corporation's flexible working group. At Digital each employee has a single phone number wherever he or she works. Once the employee logs on to the computer system – at home or in the office – they send the number of the local phone to which all calls are to be sent.

To a customer calling in to the company it is impossible to tell where the recipient of the call is seated. "It makes an enormous difference if people calling don't know if you're in your office, in a satellite office or at home," points out Moller.

Business Space bundles a similar service with secretarial back-up for small businesses from its London headquarters.

Companies quick to introduce flexible working practices have been those with a knowledge of the technologies needed – such as Digital. It has become an exemplary case of how a company can substantially cut its fixed overheads by introducing teleworking.

Five per cent of Digital's UK workforce – 350 people – now work outside the traditional office environment and the company hopes to extend this to 25 per cent over the next few years.

So far the company has reduced its property costs by about 30 per cent, says Harris. Eventually Digital hopes to cut its building stock to just 10 per cent of what it had a few years ago.

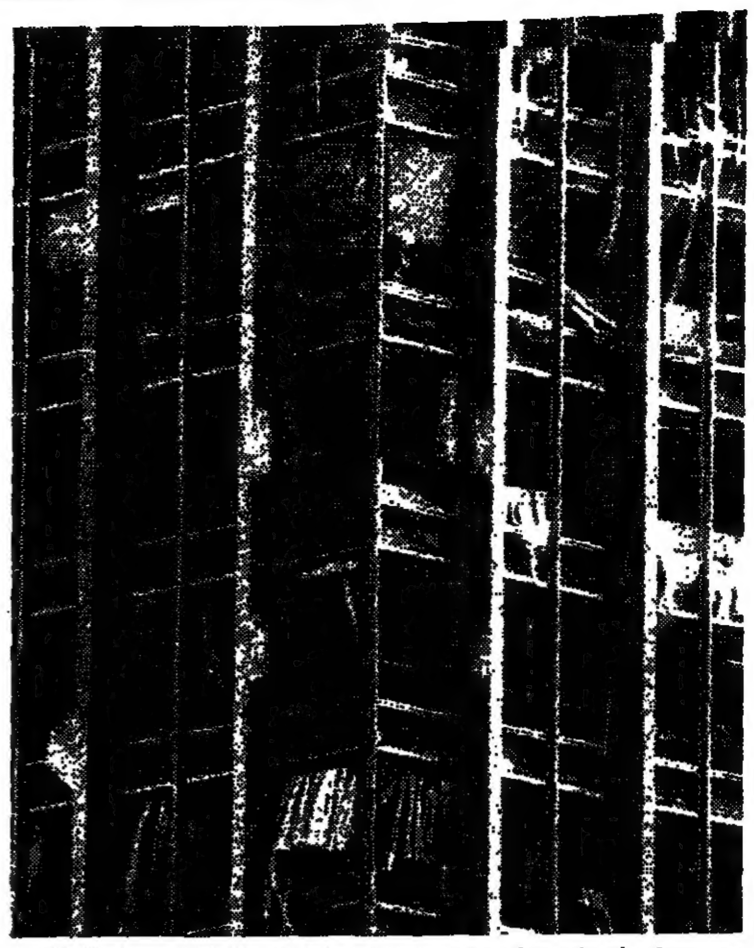
Harris believes that only by proper planning at the highest level within a company will an organisation achieve higher productivity and reduce costs. "If it's done properly you'll get a 'win-win' situation. Both the company and individuals will benefit."

At Mercury Communications the cost of accommodation, particularly in London, has been the driving force behind new working practices. "Over the last 18 months various disparate actions have happened. Now we're trying to tie them all together," says Chris Ridgewell, manager of the flexible working group.

In common with Harris, Ridgewell says that unless the programme has the support of management at the highest level within the company "it doesn't happen properly, or goes off at half cock".

Mercury is set to launch a three-year programme, initially targeting sales, sales support and network support staff. Ridgewell believes that between 800 and 1,000 of Mercury's 9,000 staff, about one third of whom work in London, will have some form of flexible working by September this year.

Flexible working patterns range from job-sharing to career breaks with work carried out at home, in the company's satellite offices, or in local business centres. These can be in hotels or business parks and companies can rent facilities for employees on a full-time basis or as needs require.



The NatWest tower's shattered windows have forced employees to relocate

From later this month, for example, the Deer Park Hotel in Honiton will be opening a telecentre where individuals or company employees can rent office space and equipment on an hourly or daily basis. The centre will be the headquarters for the National Association of Teleworkers.

The procedure at Mercury will be for individuals to propose an arrangement to their line manager who then looks at the costs. A cost case is then made for the individual depending on the equipment they will need; the line manager then decides on the basis of this whether the proposal should go ahead.

Ridgewell says there will be "several flavours" of the programme, because of the different types of work done. But Mercury is hoping to formalise a list of "job types", to which costs for equipment needed will be attached.

In its introduction of flexible working Mercury is taking its own medicine. Since October 1991 it has been advising its customers on introducing flexible working through the use of telecommunications. Seventy large companies are already converts, with some 27,000 full-time employees involved in some kind of flexible working.

A typical scenario, says Ridgewell, would be where some 250 in a company – one department, say – would be approached about flexible working and at the end of the trial period about 80 people would be involved. After the first year about half the staff are on the programme.

"The major problem is not the procedures, it's the managers' attitudes. They think they're losing control," says Ridgewell. "It's very much a British thing."

In spite of that, Moller thinks changes in management attitude are the biggest driver behind the new-found flexibility. He also argues that as managements believe the recession is coming to an end they are now re-considering how to retain their trained staff, an issue subsumed by recession.

The management challenges are numerous: what sort of contracts people need, how to make jobs task-orientated rather than time-orientated and ensuring insurance and health and safety regulations are extended to the home.

"The key thing is to get the right balance between team dynamics and the social content and the facilities for people to work independently," adds Harris. "Most important is to get people involved in the way they work. It all depends on good working practice and discipline and that sort of thing doesn't happen by accident."

Opportunities for teleworking

Technology can bring little comfort to most of the 900 or more miners at Grimethorpe colliery in South Yorkshire, which has ceased production of coal.

But for a few, the local Barnsley Metropolitan Borough Council's plans to set up a remote office in the redundant National Coal Board offices in Grimethorpe could provide a ray of hope. "We're hoping to set up a workshop community where local people are employed doing work which is outsourced from other organisations," says David Bramall, manager of the microsystems centre, part of the council's economic development department. "They will work remotely for the parent organisation."

Bramall hopes the centre will provide 20 jobs to begin with and will be in full swing within a year. He believes many jobs – technical helplines, for example – could provide worthwhile employment for local men. They could handle calls from around the country while accessing data held on a database sited remotely.

The problem the council faces is ensuring they can provide a service for potential customers at a competitive market rate. The project has already secured some EC funds under Mitre – market implementation of teleworking in rural environments. "Barnsley is semi-industrialised and quite remote," explains Bramall. "The coalfields never needed good communications. All they needed was a railway to get the coal away."

But Bramall is still concerned that the cost of the equipment for remote working could make services economically unviable. The cost of each workstation, says Bramall, is about £2,000. There is the additional cost of the phone lines needed to transmit voice and data calls simultaneously using ISDN (integrated service digital network). Each line costs £400 to install, plus the price of the calls.

Bramall is investigating ways of cutting costs. One potentially useful communications technology is where users only pay for phone lines in use – not for the 24 hours every day when they are available.

At the end of the day, says Bramall, "what we want to do is try and lift people's spirits a bit."

Boost for epilepsy market

Wellcome, the UK drugs group, this week stressed the importance of its epilepsy treatment, Lamictal, the first new medicine for the disease in 10 years.

The company believes it could significantly expand the £750m-a-year epilepsy market, which, according to Lehman Brothers, the US brokers, is growing at about 20 per cent a year.

Trevor Jones, research and development director, said the drug was a truly outstanding advance in the treatment of epilepsy.

Trials suggested that more than half of patients adding Lamictal to their existing medication experienced a 50 per cent reduction in seizures.

In 56 per cent of these patients, they were able to stop taking their original anti-epileptic.

Jones said those suffering from an "absence" effect associated with certain types of epilepsy experienced a fall in momentary losses of concentration when using Lamictal.

From a base-line of 140 incidents a month, events fell to less than 20. In addition, the duration of events dropped from about 450 seconds to less than 50 seconds. The clinical trials also suggested the drug improved quality of life and overall well-being.

Lamictal had a low incidence of central nervous systems side effects, claimed Jones. The existing therapies such as Ciba-Geigy's Tegretol, Abbott and Sanofi's Depakote and Epilim, and Warner-Lambert's Dilantin, have problems with gastrointestinal side-effects.

Jones hoped the drug, presently licensed in 10 countries, would be approved imminently in Germany, Italy, Spain and the US. In the UK, where it was launched, it already has 13.5 per cent of the market.

Wellcome hopes to submit a new drug application for Lamictal to be used on its own either next year or in 1995. A dossier for paediatric use should be deposited over the next two years.

The company is also looking at using Lamictal and a more potent successor compound called 524C79 for the treatment of acute and chronic pain.

Paul Abrahams

Theatre

Kafka's 'The Trial'

This version of Kafka's classic novel is like a limp handshake. It doesn't *grasp* the novel, and it doesn't grip us. It whooshes its protagonist, K, *through all* the bewildering, bizarre and frustrating preliminaries of a trial whose purpose and nature neither he nor we ever understand, it speeds him along a gallery of unsettling characters – but it is all just a grey précis.

A pity, since it has much going for it. This adaptation was first made by Jan Grossman, the celebrated Czech director who died this February, in 1966. Its director here, Lída Engelová (also Czech), staged his version of *The Trial* in St Petersburg in (of all times) spring 1989. The present staging – which marks her British directorial debut – is fluent, imaginative, succinct; and it contains plenty of good acting. So why does it not enthral?

Part of the problem is James Wilby as K. This actor has developed an interesting line in characters who are weak but intense, but his way of communicating intensity, with over-emphatic facial expressions and over-calculated gestures, fails to convince. And everything about him – the lazily clear vowels, the lordly and relaxed use of his hands, even the frequently puzzled look about the eyes – carries so hefty a whiff of the English class system that he cannot penetrate to the heart of Kafka's Mittel-Europa totalitarian state.

But another part of the problem is that Engelová and Grossman do not catch the dark irony of Kafka's prose. Not at the Young Vic, at any rate. Oh, they are certainly aware of all the metaphysical, political, judicial and sexual aspects of K's story. But the deadly appearance of impassive detachment with which Kafka makes his every stroke all the more meaningful is missing. The mystery of the unseen "They" never has terror for us here, and the anonymity of reducing the protagonist's name to a mere initial is lost.

Kafka is most alive amid the roster of supporting roles, several of them halfway into Dickensian caricature. Peter Eyre is wonderfully lugubrious as the Advocate in Part Two, droning dolorously about the capriciousness of clerks, and the crucial importance of "the highest grade of the lower orders." Even in the small role of the Examining Magistrate in Part One, he has a deadpan solemnity that is utterly Kafkaesque. Estelle Kohler, as Lenka, is a slyly lascivious cat; Simon Dutton's painter Titorelli is an entirely plausible con-artist of the wheels of bureaucracy; and Jake Nightingale and David Barber make the two warders into bitterly funny and horrid portraits of petty crookedness. Guy Manning's priest, however, does not bring off his long tale.

Alastair Macaulay

At the Young Vic, until May 22; sponsored by Lovell White Durant, an award winner under the Business Sponsorship Incentive Scheme

Cinema/**Nigel Andrews**

Brecht crossed with party-line China

The shadow of Tiananmen Square spreads across the remote village in Zhang Yimou's *The Story Of Qiu Ju*. A year or more ago China's greatest film-maker, having won friends abroad and foes at home with his no-mercy masterpieces *Red Sorghum* and *Raise The Red Lantern* (both banned in China), found himself backed into a political cul-de-sac. In the wake of the Beijing massacre and the country's return to hard-line Maoism he was given, effectively, a simple choice. Either make a film the authorities like or . . .

"Or" in China can mean many things: "Goodbye, movie career," "Here is your ticket to another canton", "Please fall under this tank." So Zhang Yimou made a film that obeyed the rules. *Qiu Ju* unfolds at times like a Brecht morality drama crossed with a party-line Chinese film from the bad old days: the kind that waved titles like "Suki Loo Beats the Black Marketeers" or "Red Women Raise The Flag Over The New Sewage System."

But a great film-maker is incapable of turning out a worthless movie. *The Story Of Qiu Ju* has a vigour and crackpot humanity even amid its prescriptive Peking populism. The heroine is a pregnant peasant woman (Gong Li) whose husband has been kicked where it hurts during a row with the village headman. She must – she will – have justice. So off she troops to the local policeman, then to the local town, then to the local capital . . .

Not for this chill-growing Mother Courage the partial victory of a pay-off to her spouse or reprimand to the headman. She wants justice plus an apology. Each time that justice falls short, she throws her well-earned money from the pepper market at the next legal mountain to be climbed.

When she reaches the provincial capital she is as bruised and dazed by her own fortitude as by the unfamiliar city life around them. Zhang Yimou's hidden camera captures the alien madness. Bicycle-taxis clattering; sea of voices nattering; cartfuls of furniture going surreally by (note the woman sitting on a sofa astride a rickshaw) as if Chinese life *en masse* were rebelling against its political embalmment with a daft, fervent parody of the nomadic.

Directed by anyone else, this fable of uplift and upward legal mobility might have been unbearable. Some details, like the heroine's pregnancy, *are* unbearable. *In addition* to her other symbolic burdens Qiu Ju must waddle across China carrying the country's future inside her? And the baby's birth sets off the final series of resistible plot detonations: cross-country dash to hospital, husband's crisis of marital faith, the swing into a smiling coda with the headman forgiven, albeit too late for the snapping of justice's Damoclean sword.

But before this Zhang Yimou salvages what he can – and it is more than enough – by the simple device of changing his style. No soaring Jacobean grandeur here, no savage poetry of colour and camerawork. Instead *Qiu Ju* bundles as many faces as it can into the frame – using depth as in a 3D movie – and deploys its multiplicity of human detail like chaff to baffle an Exocet. The deadly Maoist Messages keep swerving off course, confused by the sparkling flakes of comedy, character detail and wittily, winningly observed social flux.

★

Bills sent to the wrong address are the subject of the week's two Hollywood films. The first Bill (funnyman Murray) is a Philadelphia TV weatherman posted to Punxsutawney, Pennsylvania. For the citified cynic-hero of *Groundhog Day* the supposed one-day outside-broadcast mission becomes, literally, a small eternity. The second Bill (Paxton in the thriller *Trespass*) does the town mouse/country mouse routine in reverse.

In search of justice: Gong Li in 'The Story of Qiu Ju'

An Arkansas fireman, he is lured to St Louis by one of the few things that could lure anyone to St Louis: a priceless trove of gold. It is stashed, he and flame-fighting friend William Sadler learn from an improbably obtained treasure-map, in a derelict factory.

Now: think hard for a moment. What always happens when bills go astray? Exactly. Someone else pays for your mistakes or you for theirs; or else justice is done after long litigation. *Groundhog Day* is a mixture, but a delicious one, of all three. In this bubbling comedy co-written and directed by Harold Ramis (*Ghostbusters*, *Caddyshack*), Bill Murray wakes up on a dozen identical mornings in a town he has only checked into *for one night* – his italics – to report on the annual ceremony of the groundhog. (Toothy creature emerges from hibernation; sights shadow; heralds spring.)

Each dawn the same radio-alarm assaults his ears with country music. The same boarding-house lady supervises breakfast. (Murray: "Do you have *déjà vu*?" She: "I'll check with the kitchen"). And the same pretty TV producer Andie McDowell tells him he is late after he has sloshed through melted snow and has almost sloshed, en route, the town's overfriendly insurance salesman.

But days in a bucolic time-warp have an advantage. Like reincarnation, they allow a Buddhist self-perfecting process. First our hero becomes nasty: note the crumpled-sheets face, frazzled eyes and cracked-voice wisecracks. (Murray on this form is the most voluptuous misanthropist since W.C. Fields.) Then he becomes crafty, using each new day as homework for the next. The fancied McDowell once studied 19th century French poetry? "What a waste of time" croaks Murray on day one; next day he comes in right on cue with complete stanzas of Baudelaire. He can also, of course, survive death, injury and overeating.

Finally, though – enter the ghost of Frank Capra – our hero becomes plain nice. In last reel the movie spirals up into an implausible, inevitable Hollywood aether of true love, rescued groundhogs, uplifted townspeople, spring weather. But even here happiness comes too late to spoil the fun. The bills have all been paid or reclaimed: Murray's to society, misanthropy's from its proper targets (insurance-men, C-and-W music), the Hollywood humour department to us the paying customer. And we feel we have earned the right to keep chuckling through the sanctimonious finale.

City people being thrown into the sticks, where they learn a homely humanity, is a well-established movie trope. (See a dozen recent movies from *Witness* to *Doc Hollywood*.) In *Trespass* the trope is mirror-written. Two gold-seeking rural firemen are thrown from Nowhere, Arkansas, into a designer urban slumland. Art director Jon Hutman makes the broken-down St Louis factory a merry hell of rusting girders, dangling cables, splintered windows. Ridley Scott's *Blade Runner* meets Walter Hill's *Streets Of Fire*; and since Mr Hill is the director of *Trespass* we are soon into one of those apocalyptic closed-space guerrilla wars he makes his own.

THE STORY OF QIU JU (12)
Zhang Yimou

GROUNDHOG DAY (PG)
Harold Ramis

TRESPASS (18)
Walter Hill

AN ACTOR'S REVENGE (PG)
Kon Ichikawa

The two white heroes, panning for the Greek art treasures rumouredly hidden under a floorboard after a theft 15 years before, are cornered by a band of black thugs led by dandyish Ice T. Since Ice T is conducting his own civil war with would-be leader Ice Cube – put an ice-pack to your brain and bear with the mantric cast list – guns and knives and *screams and torchings are soon the* order of the day. Or the week, or the year: depending on how long the 100-minute running time seems to you.

To me it seemed as long as Bill Murray's awayday in Punxsutawney seemed to him. The far-fetched buried treasure plot – original script by Robert Zemeckis and Bob Gale of *Back To The Future* – is a made-in-hell match with Walter Hill's reductive stichomythia of *gunfire*, explosions, F-words and drug-culture melodrama. (When in doubt, stab someone with a hypodermic or crucify a gibbering heroin victim against a door). And the more artful the images become in this Sensationalist's Guide to America after the L.A. riots – its original US title was *Looters* – the more ridiculous seems their harnessing to a plot that would have earned C minus in a beginners' screenwriting class.

Make up for time wasted in St Louis by two hours in another, better inferno. Kon Ichikawa's *An Actor's Revenge*, revived at the ICA, has all Hill's blaze of imagery but a blazingly believable plot – revenge and murder among Kabuki theatre people – to go with it.

Balanchine's Ballet Imperial

The history of Balanchine's *Ballet Imperial* at Covent Garden has been curious, lamentable. The ballet was made in 1941 for a show-the-flag tour of South America by Balanchine's erstwhile company; the choreographer's realisation of Tchaikovsky's second piano concerto was an abstraction of the emotional and technical world of the *Petipa* repertory, and also of the *courtly society* that sustained it.

When New York City Ballet was preparing to make *its first* London visit in 1950, Balanchine was invited to mount a piece for the Royal Ballet, and *Ballet Imperial* was staged with designs by Eugene Berman. The design, like the ballet, was a marvel, and our dancers soon took the measure of the choreography and its bravura style. Fonteyn, the *first* cast ballerina, was not happy in the role; her successor, Moira Shearer, gave a glittering, *splendid interpretation*. Among later ballerinas, Nadia Nerina and Antoinette Sibley were especially fine, rejoicing in the classic exactness of the part and in its evocative richness. *Ballet Imperial* was a jewel in the repertory.

It was, inexplicably, given new – and very blue – design in 1963 by Carl Toms. A decade later, as Balanchine revised the piece for his own company, it was further democratised here by Terence Emery's design, which set the piece in an urban underpass with dismal outfits for the performers, who did not look their best. *Ballet Imperial* was now *Piano Concerto Number 2*, and much of its identity was eroded.

Worse was to come in 1985 with a *wholly inapt* re-designing by Christopher Lebrun (the piece now located in a wasteland), compounded by ferociously inadequate performance. Balanchine was betrayed.

With this season's revival we have something like an *amende honorable*. The Berman designs have been restored – albeit "realised" by Anthony Dowell – and the piece has been re-staged by Patricia Neary. *There must be at least* two and a half cheers for the return of Berman's concept. The stage looks magnificent, and Berman's fantasy of pillars and flambeaux and crowned eagle, between great swags of gold drapery, is a triumph of stage decoration. Dowell has lightened the image through use of gauzes – the pillars are more vaporous than heretofore – but he respects the emotional world that Berman established in such harmony with the choreography. The costumes are in the main well realised; though some colours and details are, I think, slightly "off". The leading ballerina should wear a brighter, clearer yellow; the decoration on the second ballerina's bodice is missing and must be restored, since it reflects Berman's visual theme.

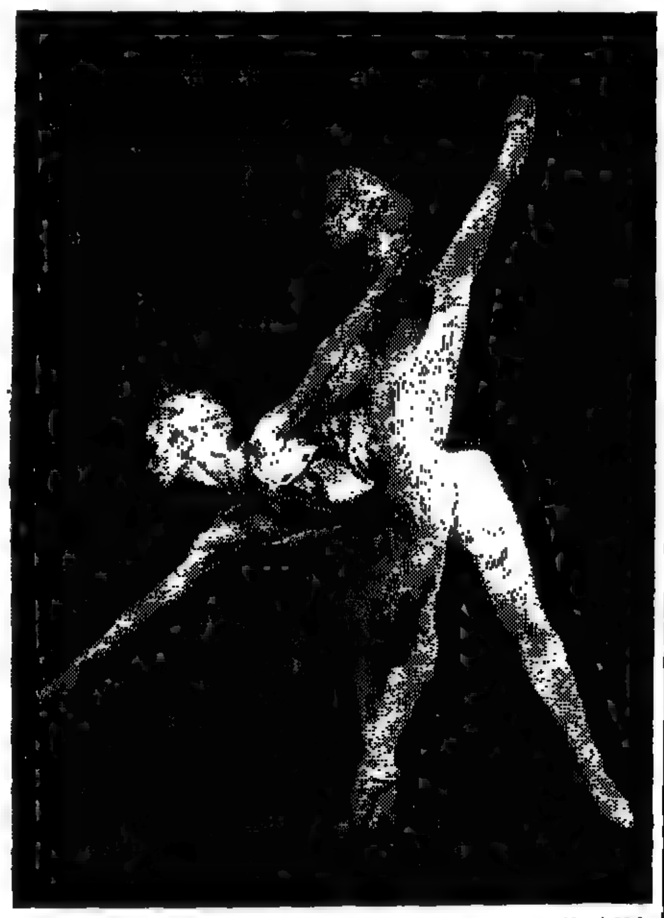
A more serious matter is the text proposed by Miss Neary. She has given the Royal Ballet the version now current in New York. The choreography as mounted in London in 1950 was, if memory serves, more varied in detail, and more suited *to the idea of dancers* wearing tutus. Shearer, Nerina, Sibley, were *pur-sang* classical artists *who cut* Balanchine's steps like diamonds, and showed these gems with imperious dignity and grace. The later text (Balanchine's revision for his own troupe) implied speed and a more democratic image – the women wore chiffon dresses – and it runs counter to the courtly world of Berman's decoration. Vastly welcome as this *Ballet Imperial* is, it is not quite at ease with itself.

Matters may be helped with more idiomatic performances than those from the first cast. Viviana Durante *skims* through every difficulty with enviable ease, but the scale of her dancing is too small: grandeur is lacking. The ballerina's consort was first taken by Michael Somes. Nobility, romantic presence, were his, and he made the ravishing middle movement seem like a vision scene from some long-lost Petipa work. No-one since has given the part such poetry. In this revival Bruce Sansom is *extinguished* both by the role and by his costume. Darcey Bussell is happy as the second ballerina – if not always as bright in step as she might be – and her two cavaliers are pleasing. The ensemble is clear, well-mannered: if I have a wish for this important restoration, it is that experience will enable the cast to show these superlative dances with bolder attack, greater feeling for their grand shape. Like St Petersburg itself, the choreography is ideal in proportion, gleaming with light.

This latest Covent Garden triple bill brings a powerful revival of MacMillan's *Gloria*, done with tangible dedication by its cast – Leanne Benjamin, Christopher Saunders, Adam Cooper, Nicola Roberts. The images of grief and despair – and compassionate love – which inspire these revenants touch the heart. It is a beautiful ballet, given with absolute integrity. The programme also includes David Bintley's *'Still Life' at the Penguin Cafe*, which I do not understand at all. The audience reacts with delight to dancers impersonating animals (yet again!). I think we should encourage poachers.

Clement Crisp

This programme repeats on May 6, May 20, May 26



Alastair Muir

Viviana Durante and Bruce Sansom

Music in New York/**Paul Griffiths**

Berio's 'Epiphanies'

Several *out-of-town orchestras* have brought new pieces to Carnegie Hall this spring: the San Francisco Symphony were here with John Harbison's Oboe Concerto just before their European tour, and the Baltimore Symphony brought George Perle's Adagio, a Carnegie commission. The Philadelphia Orchestra's contribution on last week to this parade was a work both old and new, Luciano Berio's *Epiphanies*, which he promises is the final version of his *Epifanie*, begun in the 1950s.

Epifanie always was a mutable score: a set of a dozen orchestral songs and interludes that could, in the *fashion* of the time, be put together in different ways to create different trajectories through the wide sky of musical voicing, from song to speech or vice versa, with visits to rhapsodic lyricism and stringent declamation. *Epiphanies* freezes the action. Now there is only one permitted ordering, which is, with one minor switch, the arrangement Berio had always preferred, taking the soloist *from Proust's hesitant reverie* to Brecht's bitter disillusionment, with Joyce's vision of a girl on *the Liffey strand* as the ecstatic centrepiece.

Berio's elimination of the work's mobility seems to have had an essentially practical intent, like his reduction of its orchestral extravagance (there are now four trombones, not seven). But he has taken the opportunity of the single course to introduce links between what were previously isolated movements – most *conspicuously* a discreet reference to the "Miserere" from *Il trovatore* shortly before the Joyce day-dream, giving the impression of a distant orchestral murmuring that something important is about to arrive.

Other differences between the 1991 and 1965 versions will no doubt emerge more clearly when the two scores are available for study. The impression from a first hearing of *Epiphanies* is that the orchestra now, besides being more compact, is more effective in conveying the *impression of speaker-less* speech, of vowels and consonants, coughs and grunts and *shrieks rolling* round the platform, right from the beginning, where the ensemble begins to find its voice in soft drum rolls and tremolos on flute and violins. However, this strikingly positive sensation may have been produced simply by the expert beauty and address of the playing.

As for the singing, one big problem is that the work was written for the voice and the personality of Cathy Berberian, and it still sounds that way even in this posthumous revision. Charlotte Hellekant sang her part from *memory*, and with a fetching richness of tone in the contralto register, but Berberian's exhilaration was missing. It was also a mistake of theatre, in what is incipiently a theatrical piece, for her to sit down between items: the soloist ought to be poised and waiting to take her next opportunity to fly or swim or march with the orchestra, or to be drowned in the clamour.

INTERNATIONAL ARTS GUIDE

ATHENS

Concert Hall Tomorrow: Leonidas Kavakos violin recital. Sat, Mon, next Thurs: Marek Janowski conducts Claus Helmut Drese's staging of Strauss' Die Aegyptische Helena, with Orchestre Philharmonique de Radio France and a cast led by Anna Tomowa-Sintow. *Tues:* Janowski conducts Messiaen's Turangalila Symphony. Wed: Janowski conducts Berlioz and Franck (722 5511)

BARCELONA

Palau de la Musica Tomorrow, Sat, Sun: Yehudi Menuhin *conducts* Barcelona City Orchestra in works by Pueyo, Mozart and Elgar, with piano soloist Jeremy Menuhin. Mon: Gennadi Rozhdestvensky conducts Royal Stockholm *Philharmonic* Orchestra, with violin soloist Gidon Kremer. This is the first stop of the orchestra's tour of Spain, covering Madrid, San Sebastian, Valencia, *Santiago di Compostela* and Oviedo, where the tour ends on May 16 (268 1000)

Gran Teatre del Liceu Sat: song recital by Ferruccio Furlanetto, accompanied by Alexis Weissenberg (412 3532)

BERGAMO

Festival Pianistico Internazionale di Brescia e Bergamo: tonight's concert at Teatro Donizetti in Bergamo is given by Orchestra of La Scala under Gary Bertini, with soloist Radu Lupu. Ayami Ikeba *and Alfons Kontarsky* give a recital for two pianos on Sat, and Cecile Licad accompanies cellist Antonio Meneses on Mon. Vladimir Ashkenazy gives a recital next Thurs, followed on Fri by Andras Schiff. Schiff gives tomorrow's recital at Teatro Grande in Brescia, *followed by* Anna Kravtchenko on Sun, Meneses and Licad on Tues and Ashkenazy next Fri. The festival runs till *June 9* (Bergamo: *tickets* 249631/information 240140. Brescia: tickets 59448/information 293022)

BOLOGNA

Teatro Communale Rigoletto, in a staging from Florence conducted by Riccardo Chailly, can be seen tonight, Sun afternoon and Tues, *with* three further performances till May 18. Paolo Gavanelli and Leo Nucci alternate in the title role. Mon: *Karolos Trikolidis conducts* Debrecen Philharmonic Orchestra in works by Kodaly, Richard Strauss and Bartok (529999)

FLORENCE

MAGGIO MUSICALE
Semyon Bychkov *conducts* the Maggio Orchestra tonight and tomorrow at **Teatro Communale** in a programme of Weber, Mozart and Tchaikovsky, with Labeque Sisters. Bychkov also conducts final performance of Liliana Cavani's production of Jenufa on Sat, with Katarina Ikonomu and Marilyn Zschau. Andras Schiff gives a Schubert recital on Sun. Next Tues at Teatro della Pergola: Renata Scotto gives first of four performances of Poulenc's La voix humaine (277 9236)

LONDON

THEATRE
- Arcadia: Tom Stoppard's new play directed by Trevor Nunn, with a cast *including Felicity Kendall*. In repertory at the Lyttelton with Alan Bleasedale's wild new comedy On the Ledge. The Olivier repertory consists of Macbeth with Alan *Howard*, Stephen Daldry's award-winning production of J.B.Priestley's An Inspector Calls, and *Arthur Wing Pinero's late 19th* century comedy Trelawny of the Wells (National Theatre 071-928 2252)
- City of Angels: Larry Gelbart's *witty, sophisticated musical* set in 1940s Los Angeles (Prince of Wales 071-839 5972)
- Crazy for You: lavish, romantic Gershwin musical comedy (Prince Edward 071-734 8951)
- Getting Married: Shaw's family comedy opens the Chichester *Festival*, followed on *May 19* by Noel Coward's Relative Values (Chichester Festival Theatre 0243-781312)

OPERA/DANCE
Covent Garden Royal Ballet repertory over the next three weeks consists of a triple bill (MacMillan, Bintley, Balanchine), Don Quixote and Swan Lake. *Royal Opera* has a final performance tomorrow of Jenufa with Nancy Gustafson and Anja Silja, followed by *Otello* next Mon and Fri with Vladimir Atlantov and Katia Ricciarelli, conducted by Edward Downes (071-240 1066)
Coliseum ENO repertory consists of David Alden's acclaimed new production of Ariodante conducted by Nicholas McGegan with Ann Murray in title role, and a revival of Jonathan Miller's production of Il barbiere di Siviglia with Della Jones, first night on Sat (071-836 3161)

CONCERTS
***South Bank Centre** Tonight:* Evelyn Glennie and Joanna MacGregor are soloists in LPO's Alternative Vienna series. Tomorrow: *Erich* Leinsdorf conducts RPO in Brahms. Sat: Pierre Boulez conducts Schoenberg, Stravinsky and Birtwistle. Sun afternoon: Andrew *Davis conducts BBCSO in Berg* and Mahler. Mon: Penderecki conducts Penderecki. Tues: Vernon Handley conducts Bax, Britten and Bantock. Wed: YMSO plays Corigliano's First Symphony and Tippett's A Child of Our Time. May 14, 15: Tennstedt conducts Mahler (071-928 8800)
Barbican Tonight: Solti conducts LSO. Tomorrow: Lawrence Foster conducts CBSO in Korngold, Weill and Hindemith. Sat: Leopold Hager *conducts ECO, with horn soloist* Frank Lloyd (071-638 8891)

MADRID

Auditorio Nacional de Musica Tonight: recital for two pianos by Pepita Cervera and Teresina Jorda. Tues: Gennadi Rozhdestvensky *conducts Royal Stockholm* Philharmonic Orchestra, with violin soloist Gidon Kremer (337 0100)

MILAN

Teatro Lirico *Tonight: Zoltan Pesko* conducts first night of Carillon, opera by Sicilian composer Aldo Clementi (b1925), staged by Giorgio Barberio Corsetti. Daily except Mon till May 12 (7200 3744)
Teatro alla Scala Mon: *Nicolai* Ghiaurov song recital. Next opera production: Weber's Oberon, conducted by James Conlon and staged by Luca Ronconi, opening on May 14 (7200 3744)

PRAGUE

PRAGUE SPRING FESTIVAL
The festival opens next Wed with first of two performances of Ma Vlast by Royal Liverpool *Philharmonic* Orchestra conducted by Libor Pesek. The first week includes Paul McCartney's Liverpool Oratorio, a concert of Czech chamber music by Kocian Quartet and Josef Suk, a piano recital by Lazar Berman and a Prague Symphony Orchestra concert. *Charles Mackerras conducts* Don Giovanni at Estates Theatre on May 12, 13, 15. The festival runs till June 1 (Tickets from Bohemia Ticket International, Salvatorska 6, 11000 Prague 1, fax 231 2271, and from city centre ticket agencies)

ROME

Teatro Olimpico Tonight: Claudio Scimone directs I Solisti Veneti in works by Poulenc and Richard Strauss. Next Thurs: Pierre Boulez *conducts Ensemble* InterContemporain (323 4890)
Teatro dell'Opera Mon: Renato *Bruson song recital. Tues: Vladimir* Fedosseyev conducts first of six performances of Bolshoy production of Queen of Spades, with cast including Alexei Steblianko and Irina Arkhipova. Programme subject to cancellation or change at short notice (481 7003)

STRATFORD

The summer season opens tonight with T.S.Eliot's Murder in the Cathedral, directed by Steven Pimlott at the **Swan Theatre**. The **Royal Shakespeare Theatre** opens on Mon with Adrian Noble's new *production of King Lear* (Press night May 18). The Merchant of Venice directed by David Thacker (Royal Shakespeare Theatre) and Goldoni's The Venetian Twins directed by Michael Bogdanov (Swan Theatre) join the repertory on May 27. The **Other Place** opens on May 31 with previews of Ibsen's Ghosts (0789-295623)

TURIN

***Teatro Regio** Tomorrow evening*, Sun afternoon: Adriana Lecouvreur. Next Thurs: first of eight performances of Peter Schaufuss' production of Giselle (8815 214)

VENICE

Teatro La Fenice Tonight, Sat: Donazo Renzetti conducts Ugo Tessitore's production of Norma, (521 0161)

European Cable and Satellite Business TV
(All times are Central European Time)
MONDAY TO THURSDAY
Super Channel: European Business Today 0730; 2230
Monday Super Channel: West of Moscow 1230.
Super Channel: Financial *Times Reports 0630*
Wednesday Super Channel: Financial Times *Reports 2130*
Thursday Sky News: Financial Times Reports *2030; 0130*
Friday Super Channel: European Business Today *0730; 2230*
Sky News: Financial Times Reports 0530
Saturday Super Channel: Financial Times Reports 0930
Sky News: West of Moscow 1130; 2230
Sunday Super Channel: West of Moscow 1830
Super Channel: Financial *Times Reports 1900*
Sky News: West of Moscow 0230; 0530
Sky News: Financial Times Reports 1330; 2030

Arts Guide
Monday: Berlin, New York and Paris.
Tuesday: Austria, Belgium, Netherlands, Switzerland, Chicago, Washington.
Wednesday: France, Germany, Scandanavia.
Thursday: Italy, Spain, Athens, London, Prague.
Friday: Exhibitions Guide.

Gurus of how to get more for less

BOOK REVIEW

REINVENTING GOVERNMENT
By David Osborne and Ted Gaebler
Addison-Wesley
£19.95/$22.95, 405 pages

The publishing world has long recognised that books by business management gurus such as Tom Peters and Peter Drucker can be big money-spinners. The same has not been true about books on public-sector management, until the arrival of Reinventing Government.

When the book was first published in the US last year, it shot into The New York Times non-fiction best-seller list for eight weeks. In its ninth reprinting, it is now being promoted to receptive audiences around the world.

The authors were barely known in the US until the book's publication. Ted Gaebler is a management consultant who was formerly city manager of Visalia, California, and Vandalia, Ohio. David Osborne is a writer, journalist and political consultant.

The success of the book means that they now command superstar fees for speaking at conferences and advising politicians. This week, top British civil servants and local government managers will hear Mr Osborne in a programme of seminars organised by the Civil Service College.

The book's message is simple – there is a revolution under way in government, as people demand more from public services while being prepared to pay less in taxes. Getting more for less is creating an entrepreneurial spirit, the authors say, which is transforming the public sector "from schoolhouse to state-house, city hall to the Pentagon".

The traditional model for delivering public services is the top-down bureaucracy designed to ensure equity of treatment for the taxpayer by delivering identical services to all. But consumers are no longer happy with standardised public services. Quality, choice, responsiveness and competition are what the punters have become accustomed to in the private sector. They now want the same in the public sector – and want it for less.

That requires public-sector managers to behave more like entrepreneurs, defined by the French economist Jean-Baptiste Say as shifting "economic resources out of an area of lower and into an area of higher productivity and greater yield".

The authors set out 10 principles around which entrepreneurial government can be established. These include old favourites from mainstream business management literature, such as decentralisation, meeting the needs of customers and becoming mission-driven.

But there are also more fundamental points which justify the title of the book. For example, public funds should be used to encourage the private sector to provide services, rather than to create new public agencies and organisations. Success should be measured in terms of outcomes, whether it be educational qualifications or successful operations, rather than budget size or staff numbers. Public services should invest in prevention rather than cure.

Above all, the role of government is to steer, not to row. This is the core of the "reinventing government" approach, a new vision of public services in which the state sees its job as enabler rather than doer, purchaser rather than provider.

Along with most "how to manage" books, this volume is stuffed with success stories which illustrate the new entrepreneurialism, almost entirely drawn from US experience. It also has its heroes such as General Bill Creech, who reorganised the Defence Department's Tactical Air Command along decentralised lines and revolutionised its performance.

Only passing references are made to public-sector reforms in other countries such as the UK, New Zealand and Australia. This is a pity, since New Zealand, in particular, best embodies the spirit of reinventing government, with all public services now provided under contracts which clearly specify outcomes. Such omissions irritate UK admirers of the book, including Mr William Waldegrave, the public services minister. He points out that the government published its Citizen's Charter, commended by Osborne and Gaebler, on the very day that the two authors submitted their manuscript to the publishers.

However, it is the theoretical underpinning of the public service reforms now under way across many of the advanced economies which accounts for the book's deserved success. It provides a rationale for the practices which public-sector managers in a variety of countries have adopted in the search to get more for less from public funds.

The success of the book also marks what is described as a paradigm shift in thinking. In the 1980s, it was the Reagan-Thatcher agenda which dominated problem-solving in government. This sought to force back the boundaries of the state, privatising some public services and withdrawing altogether from others.

A new agenda has emerged in the 1990s, which is more concerned with making public services efficient and effective than in cutting them down to size. It is also an agenda which finds support across the ideological spectrum.

In the US, it is the Democrats who have taken up the cause, in contrast to the Bush administration which, with honourable exceptions, neglected such domestic issues. It is natural territory for Bill Clinton, who spent time reinventing the Arkansas state government during his governorship. In Australia and New Zealand, it was Labor administrations which launched public-sector reforms. In the UK it has been the Conservatives under John Major who have seized the "reinventing government" agenda, a clear break with the Thatcherism which preceded it.

Whatever the political stripe of the politicians, they are all responding to the same demand for better-quality public services at less cost. For the ambitious public-sector manager, Osborne and Gaebler are now required reading.

John Willman

ECONOMIC VIEWPOINT

Green shoots that sprout problems

By Samuel Brittan

Few will deny that green shoots are at last springing up everywhere in the UK economy. This is hardly a matter on which the British government should congratulate itself.

As the EC economics commissioner Henning Christophersen remarked: "There is nothing astonishing" about the recovery. "It would be much more catastrophic if there was no sign of recovery in the UK after a long period of negative growth."

The present recovery presents one big puzzle and may present one big policy problem. The puzzle is why unemployment has fallen in the past two months, a movement confirmed by the vacancy statistics. This is much earlier than normal. In the typical cycle unemployment continues to increase well into the upward phase of the business cycle until slack is absorbed and labour shortages develop.

Changed practices at government employment offices by officials anxious to establish a good end-year record in reducing the register may have made a contribution. Demographic forces may also explain some of the difference between the present behaviour of the labour market and that of the early 1980s. Yet the demographic change has been known for a very long time and did not prevent most forecasters from expecting rising unemployment for the greater part of 1993.

The best way to treat individual monthly figures is neither to ignore them, nor to take them at face value, but to see what differences they make to a longer trend. If you take the past three months together, unemployment has been falling by a monthly average of 11,000. If you take the past six months it has been rising at a monthly rate of 17,000. The probability is that the trend is now flat, if not slightly better.

A similar impression is given by the April Confederation of British Industry survey. This shows a remarkable drop in the percentage of respondents saying they are working below capacity, from 73 per cent to 63 per cent; too large a change to be explained by spring seasonal factors. Indeed capacity utilisation is now nearly back to the average of a normal non-recession year.

Whether the early change in the unemployment trend is good news depends on the reasons for it. The worst reason would be that productivity gains have started to falter and that more workers were required to sustain a modest increase in output.

A more optimistic explanation is that the recovery is faster than preliminary statistics suggest. The Central Statistical Office has made a brave experiment in publishing an estimate of first-quarter gross domestic product, suggesting that output (excluding oil) has been rising at an annual rate of just over 2¼ per cent; but the estimate may well be raised.

Is the recovery too rapid for comfort? No one can say. We do not know the trend rate of growth – most estimates are in the 2 per cent to 3 per cent a year range. Above all we do not know how large is the "output gap" due to recession. If it is large, output could grow for some time at above trend rate without disaster.

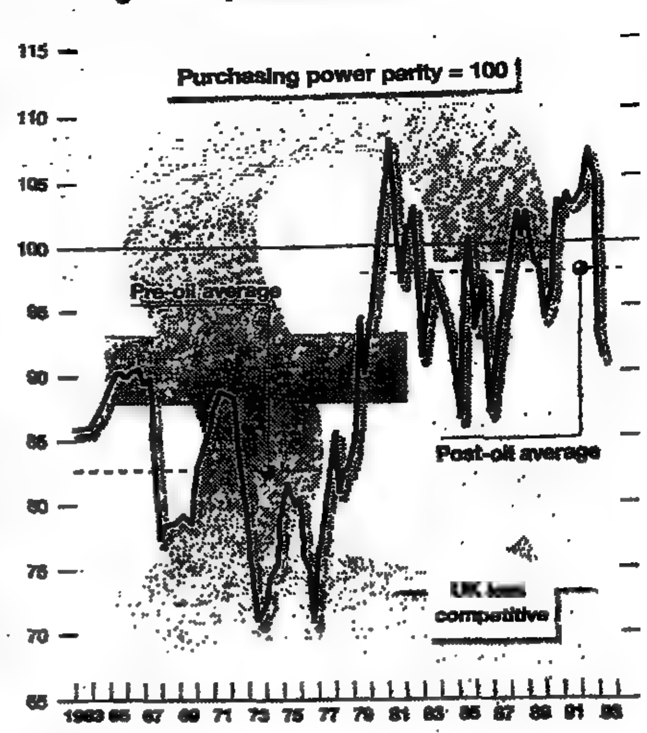
For such reasons the wisest economists have embraced a financial framework designed to encourage non-inflationary growth without attempting to fine-tune the real economy.

It is in this financial framework that policy problems are liable to arise. The dip in sterling at the beginning of this week was a reflex to reaction on the foreign exchange market in the face of the Byzantine intrigues of the anti-Maastricht factions. The trend of sterling for much of 1993 could well be upwards.

The severity of the recession in Germany and the alarmist reaction of the establishment there is likely to accelerate the pace of interest rate cuts. More and more analyses are appearing which suggest that the D-Mark is overvalued. This view could come to affect foreign exchange market sentiment – both directly and by its effect on German economic policy.

One can easily imagine a repeat of the 1987-88 dilemma. This was whether to cut interest rates or to allow sterling to rise to levels which could be both unsustainable and damp the recovery.

Sterling's competitiveness



Source: Goldman Sachs

Already the finance director of an engineering company has told the Financial Times that if the government allows the pound to strengthen any further "then it must be out of its mind". If sterling were indeed to strengthen later in the year there would be enormous pressure to cut base rates further to cheapen the pound.

Encourage sterling to edge upwards. That does not mean that the sky should be the limit

Unfortunately, the self-interested business pressure for a low pound is given added respectability by the concern of mainstream economic analysts about the current payments deficit. For instance, Gavyn Davies of Goldman Sachs (and a member of the chancellor's forecasting panel) believes that a 10 per cent fall in sterling's real exchange rate may be required if output is to grow at anything like its trend rate.

Yet Davies is also sympathetic to the Treasury's desire for a strong pound to prevent the official 4 per cent inflation ceiling (excluding mortgage interest payments) from being breached. He tries to reconcile objectives by outlining an optimal path under which sterling would be kept at about its present level for the time being – to avoid an inflation blip to 5-6 per cent – and then to encourage further depreciation later.

I would label this policy anti-Augustinian. The famous saint prayed to be made virtuous but not yet: the strategy followed by Norman Lamont with his deferred tax increases. The Goldman Sachs exchange rate advice is just the opposite: make me profligate but not yet. Mention of saints is highly appropriate, as Davies admits that it would take a miracle to produce the right timing.

The strategy would, in any case, be wrong-headed. It is an example of the incurable habit of mainstream economists to suppose that the Treasury can fix real magnitudes such as competitiveness or the current trade balance for more than a transitory period.

Davies's own diagram is revealing. It shows that competitiveness since 1979 has been 18 per cent less favourable than in the 1960s and 1970s (UK Weekly Comment, April 23). But even in the later period sterling has more often than not been *below* the level indicated by estimates of its purchasing power in terms of traded products.

The degree of undervaluation required in the 1970s when the UK was a large net oil importer and beset by quality and delivery problems has limited bearing on what is required today. Competitiveness is mainly influenced by structural forces such as oil and capital movements which determine the needed manufacturing balance. Attempted changes for policy purposes end up with unwanted inflation or deflation.

My own advice would be to encourage sterling to edge upwards, even if this means putting off the prospect of further base rate cuts. But that does not mean that the sky should be the limit. There would be no point in having endured the agonies of sterling's departure from the exchange rate mechanism last September only to let the pound approach the old DM2.778 lower limit. (Any ERM re-entry will have to be freshly negotiated).

As the Bundesbank realised in its earlier campaign for D-Mark revaluation, the movement and level of the exchange rate are indicators of policy tightness just as much as domestic interest rates. But because of the traumas endured when the government shadowed the D-Mark in 1987-88, I fear that the Treasury could act in caricature of what the engineering company's finance director fears and allow sterling to rise too high, only to follow the anti-Augustinian depreciation advice later on. Even outside the ERM an explicit policy for sterling is needed – which does not mean precise floors or ceilings at which speculators can aim.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL
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UK must retaliate on California tax

From Sir Michael Grylls, MP.

Sir, George Graham in his article "UK defiant over California tax" (April 29) said that "Britain and the US are heading towards confrontation" over California's use of worldwide unitary tax. The US administration should be under no illusion over the strength of feeling on this issue in the UK.

Some 214 members of parliament, from all parties, have signed a Commons motion calling for the government to retaliate. At the Unitary Tax Campaign's co-ordinating committee meeting on April 27, the members voted unanimously to retaliate.

At the meeting of the CBI's "American Club" on April 29, there was an overwhelming vote to retaliate immediately (25-30 in favour, four against with a few abstentions).

Too many Americans have given too many assurances over too many years. Our patience has run out. America understands only one language, that of tough negotiation as demonstrated again in their dealings with the Japanese. The British government should no longer be prepared to be fobbed off with promises for future action which, from past experience, come to nothing. The government should now retaliate immediately to get this issue resolved once and for all.

Sir Michael Grylls, MP,
chairman,
Conservative backbench trade and industry committee

Africa needs new economic medicine

From Mr Stewart Wallis.

Sir, Your comment on our Africa: Make or Break report ("Diagnosing Africa's ills", April 29), is right to point to the past and present policy failures of some African governments. Misguided economic policies, autocracy, endemic corruption and armed conflict have been part of the lethal cocktail which threatens to consign the region's citizens to deepening poverty.

This is why northern governments should encourage the moves towards democratisation, peace and economic policy realism now taking place in many African countries with a "Marshall plan" for recovery.

Seven years after the Group of Seven industrial countries grudgingly accepted the need for debt relief, the world's poorest region is being drained of $10bn annually.

There can be no moral or economic justification for this, especially in the wake of the massive debt relief measures agreed for Russia. This is why Oxfam is calling on Britain to press for a new initiative on African debt at the G7 summit in July.

Structural adjustment programmes (SAPs), implemented by African governments under the tutelage of the World Bank and the IMF, have failed to create a platform for economic recovery and even more conspicuously to address the challenge of poverty alleviation. The World Bank's own most recent review confirmed that SAPs have a particularly bad record in terms of restoring investment, the yardstick against which recovery prospects must be measured.

In part, this can be traced to the impact of deflationary monetary policies and sweeping trade liberalisation measures under SAPs. These have exposed fragile, but potentially competitive, manufacturing industries to increased competition in the face of spiralling interest rates and rising import costs. The predictable result has been disinvestment, de-industrialisation and mounting unemployment.

Rather than apportion blame between doctor and patient, surely it is time to recognise that both are hooked on the wrong medicine. It is time for the World Bank and IMF to surrender their dogmatic attachment to an outmoded set of economic prescriptions. What is needed is a new approach to adjustment, based on redistribution policies, selective import liberalisation, more carefully phased market reforms and above all a commitment to increased investment in human capital.

Stewart Wallis,
overseas director,
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Oxford OX2 7DZ

IG Metall's collective bargaining

From Mr Peter Senft.

Sir, Unfortunately it is necessary to correct your report on the legal issue of the collective bargaining contract in the metal and electronics industry and the steel industry of the new federal lands of Germany ("Morale suffers in the old east", April 30).

Part of the contract is a revision clause and in addition to this is an arbitration clause. In both industries the two possibilities of revision and arbitration had been put into action, but without any success for the employers' case.

The independent chairpersons of the arbitration committee (ie not arbitration tribunals) decided, in each case, in favour of the trade union IG Metall. The employers' association was not able to prove facts and figures in order to claim that the agreed pay rise – starting on April 1 1993 – would ruin companies.

It is a completely different issue to rescind unilaterally a collective bargaining contract by the employers. There is no clause in this contract allowing one side to do so.

This way of dealing with an agreed contract a year before the first possibility to withdraw must be considered as a danger to the German law of contract according to our Civil Law Code.

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Ozal had few options in his relationship with EC

From Mr J P van Rij.

Sir, Edward Mortimer's article about Turgut Ozal's funeral ("Friend when in need", April 28) deserves some comment, in particular on the small but significant incident in EC-Turkish relations to which he refers.

President Jacques Delors of the EC Commission was accused in 1989 by many Turkish personalities of wanting to reserve EC membership to the Christian countries of Europe. What happened in reality was that Delors, speaking before the parliamentary assembly of the Council of Europe on September 26 1989, referred to Fernand Braudel's remark that Europe's common destination is determined by its Christian religion as one element among several which he named.

In the immediately following press conference a Turkish journalist lifted the Christian religion out of the context of the speech and asked if this was meant as a message for Moslem Turkey. Delors categorically denied such intention and explained that he had simply referred to factors that had contributed to Europe's cultural identity, suchas Christianity, Roman law, Greek humanism and Arab civilisation.

Ozal could never have "courted this reaction when he slammed in Turkey's EC application in 1987", as Mortimer says, because it took place more than two years later. Neither do I agree that Demirel is "more sincerely ... European" in going for a customs union. Turkey has not many political options and the Europeans know that. It is, in a manner of speaking, in Europe but not of Europe. Turkey's customs union with the EC (not invented by Demirel but offered to Turkey by the EC in 1990) is the only realistic basis for a stable and long-lasting relationship in which the EC is not *demandeur*. Politics are often hard and merciless; Ozal would have been the first one to admit that. Symbolic gestures at the occasion of a state funeral of an important president seldom go beyond the perceived balance of interests of countries concerned. That explains the level of European presence at Turgut Ozal's funeral.

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Maastricht skirmishes

IT IS hard for any normal British citizen to understand the Byzantine legalistic wrangles between the government and its opponents during the House of Commons' interminable debates over the Maastricht treaty. But it is becoming increasingly difficult to resist the feeling that the parliamentary procedures which have been on display are unbecoming to parliament and profoundly ill-adapted to the ratification of this kind of international agreement.

The first reason for unease is that these procedures are in fact demeaning to the working of British democracy. The House of Commons prides itself on its reputation as the mother of parliaments, sovereign in all things. But it should be a cardinal rule of a model parliament that the legal significance of its debates should be clearly comprehensible, at least to the participants, and certainly to the government.

This is not the case here. In February, the government produced two contradictory legal judgments on the consequences of a defeat on the social chapter: first (from the Foreign Office) that it would wreck the whole treaty, and second (from the attorney-general) that it would have no effect on the treaty at all.

In principle the attorney-general's advice should carry the greatest weight; yet it has entirely failed to silence continued legal argument, or to introduce any real clarity into the consequences of the continued parliamentary skirmishing.

Some opponents of the treaty seem to believe they could yet challenge Maastricht in the courts of law; other experts deny that such a judicial challenge would be feasible. On grounds of democratic principle, it would seem most undesirable that a judge, however eminent, should decide a political question which ought to have been settled by the elected representatives of the people.

The dismay of the ordinary voter does not end here, however. By common consent, both of its supporters and of its opponents, Maastricht is an ambitious treaty which could have far-reaching consequences for Britain and Europe. But many British voters will have been surprised and even shocked to observe that the ratification process in the House of Commons does not seem to grapple with these large European policy issues at all.

On the contrary, most of parliament's attention, and most of its legislative power, seems to be focused narrowly on those bits of the treaty which would have direct legislative consequences in Britain itself. The Conservative Euro-sceptics and the opposition parties have tried to derail the treaty by overthrowing the social protocol. But the government is astonishingly entitled to maintain, by some extraordinary anachronism, that ratification proper is merely a matter of the royal prerogative.

This procedure has had the effect of avoiding the main issues, while fuelling a phony trench war between parliamentary factions on endless technicalities. The fact that the government, even when defeated on a substantial issue like the social chapter, can claim to ignore it reveals the dishonesty of the entire exercise. The mother of parliaments is going to have to work out a more effective relationship with the EC if it is to have any hope of representing its citizens' concerns effectively.

Jumping bail

Mr Asil Nadir's escape to Northern Cyprus will not only anger thousands of Polly Peck shareholders. It will also further undermine confidence in the capacity of the UK criminal justice system to bring serious fraud cases to successful conclusions.

Confidence has already been damaged by fiascos such as the Blue Arrow and Guinness trials. While the precise anatomy of failure varies in all three situations, common elements have been the complexity of the charge sheets and the inordinate delay in bringing cases to trial. In Mr Nadir's case, there has been a delay of two and a half years since he was charged.

One can only speculate whether an earlier trial would have deterred Mr Nadir from jumping bail. But it does seem certain that, so long as it takes several years to bring serious fraud cases to trial, little can be done to prevent defendants from escaping unless society is willing to ride roughshod over their human rights.

Mr Nadir's bail of £3.5m was already the largest imposed in the UK. Putting him – and others in a similar position – behind bars for six months while awaiting trial might be acceptable. Locking them up for three years would not be, especially since they could eventually be found not guilty.

Mr Nadir's escape was facilitated by the willingness of Northern Cyprus, a state which Britain and almost all other countries refuse to recognise, to provide him with a safe haven. There is therefore little chance of bringing Mr Nadir back to face justice, although the government of Northern Cyprus should not think that welcoming him with open arms is a cost-free decision. It is precisely such behaviour which will prevent it receiving the recognition it craves.

The lessons for future fraud cases is clear. The Serious Fraud Office must streamline charge sheets and bring cases to court much more quickly. Only then will the prosecuting authorities be able to justify denying future Nadirs bail.

Trading interests

YEAR AFTER weary year leaders of the group of seven industrial countries agree to complete the Uruguay Round of multilateral trade negotiations and fail to do so. The contrast between their protestations and their achievements is ridiculous. Can anything be done to bring their actions in line with their words?

Only last week, for example, the G7's finance ministers and central bank governors stated that "the further opening of the international trading system is indispensable for maximising world growth. A successful growth strategy requires prompt and appropriate conclusion of the Uruguay Round. Protectionism retards growth and must be resisted." Meanwhile, President Clinton himself pledged "exceptional actions" to bring about such an agreement.

So why has the round already taken six and a half years with no end in sight? The answer is that the leaders do not mean what they say. More precisely, they mean only half of what they say. They think it would be wonderful for the Uruguay Round to be crowned by the liberalisation of the trade policies of every country except their own. No wonder they find it so difficult to agree.

Leaders need to be reminded about the chief purpose of trade, which is to widen opportunities for consumption. The report published this morning by the UK's publicly funded National Consumer Council provides such a reminder. It argues, for example, that EC consumers will pay an average of £740 extra for each Japanese car as a result of the export restraint agreed by Japan; that anti-dumping duties on electronics goods cost EC consumers some £1.3bn a year; and that the common agricultural policy raises the food bill of the average family of four by over £17 a week.

Protection saves jobs, say its protagonists. This is a myth, counters the NCC. Jobs may be saved in one industry, but at the expense of jobs elsewhere. Just as mythical is the rather newer idea that free trade threatens the environment. Anyone who knows anything about the former communist countries will recognise this as nonsense. Poverty is an important cause of environmental degradation, while opportunities to trade are among the most important routes from poverty.

Most of the NCC's recommendations fall into two categories. In the first are those for liberalisation – of the common agricultural policy, for example. In the second are those for transparency and accountability.

How, for example, has it been possible for EC governments to make the Japanese form export cartels against EC consumers? How has it been possible to impose high anti-dumping duties without public fuss? The answer is that neither policy has been open to public debate and assessment. The most important NCC recommendation may, therefore, be its call for an independent body to undertake the evaluation of trade policy measures. Its proposed right of access to non-confidential information for consumer representatives could prove equally important.

So long as even well-intentioned policy-makers are locked in a struggle with narrow producer groups, they will grant protection, while calling for liberalisation. The NCC suggests governments should empower consumer bodies to participate in the debate. This would help consumers. But it would also help governments themselves to do what they know they ought to do.

A trolley full of troubles

Private-label products are threatening established brands, say Guy de Jonquières and Nikki Tait

Since Philip Morris, the world's largest tobacco manufacturer, slashed the US price of Marlboro cigarettes last month in the face of falling sales, jitters have spread to many other branded consumer goods producers. If this could happen to a company as formidable as Philip Morris, observers have asked, is anybody safe?

Pessimists have not lacked evidence for their case. The growing competition from retailers' cheap private-label products which humbled Marlboro has recently prompted other US brand leaders, including Procter & Gamble, Kraft and Quaker Oats, to cut prices or shelve planned increases.

The private-label challenge has also gained further impetus from Wal-Mart, the largest US discount retailer. Wal-Mart, which has in the past sold few non-branded goods, recently launched its own "Great Value" range of 350 food and drink products aimed at under-cutting popular brands.

Optimists argue that private-label has long prospered in US recessions, as shoppers tightened their belts. Once the economy improved, consumers have invariably returned to buying favourite household names at premium prices.

But will they do so as readily again? Though most industry experts dismiss suggestions that brands are doomed, several developments suggest that their manufacturers face a longer and tougher struggle than in the past.

Some of the developments are peculiar to the US. But others appear linked to much broader trends which are reshaping consumer goods competition worldwide. Indeed, European experience may hold some lessons for the US.

Private-label's share of total US grocery sales is hard to measure, partly because it varies between products. In breakfast cereals, it has only 5 per cent of the market, but in cheese slices it accounts for 36 per cent, according to Nielsen, the market research company.

None the less, it appears to have made deeper inroads than in previous downturns. Kroger, the largest US grocery chain, says it is between 18 per cent and 20 per cent of group sales, compared with 16 per cent in the 1981 recession. Furthermore, it has continued to flourish even though US economic recovery got under way last autumn.

Recent market research surveys suggest private-label is also increasingly popular with prosperous shoppers. This finding supports the popular view that consumers of all kinds are increasingly concerned with value – a trend which many experts expect to persist through the decade. "Value has become the smart choice," says Kroger. "The only question is how far the private-label trend will go."

Yet some manufacturers, such as Philip Morris, have been slow to draw the consequences. Indeed, they have encouraged cut-price competition by regularly raising prices ahead of inflation in the belief that their brands were strong enough to keep consumers loyal.

But that loyalty has often been strained by marketing tactics intended to boost short-term sales rather than strengthen brands. Since 1980, US food manufacturers' spending on promotional schemes, such as money-off offers and coupons, has risen from half to three-quarters of total marketing budgets, while advertising's share has fallen from 44 per cent to 25 per cent.

In practice, as much as a third of promotional spending consists of inducements to supermarkets to stock goods. The proliferation of special offers which the money has also funded is widely blamed for weakening brands by producing frequent sharp price fluctuations and wide disparities between price levels across the country.

Last year, P&G sought to impose discipline by reducing promotional spending and cutting prices by as much as 25 per cent to a uniform national level. But the results have been mixed. This month, P&G again cut sharply prices of disposable nappies, of which it is the leading producer, in an effort to beat back mounting private-label competition.

Many other large branded US manufacturers are also counting on more aggressive pricing to regain market share. However, the tactic involves risks. In the short term it can depress margins, unless off-setting cost cuts can be found. An even bigger challenge is how to re-establish a premium market position for brands which have been forced to compete heavily on price.

Some leading manufacturers, including H J Heinz and Campbell's Soup, are hedging their bets by also producing for private-label. Most say they refuse to do so in categories where they are market leaders, so as to limit competition with their own brands. However, some industry experts argue that, unless a manufacturer completely dominates a product category, it can be hard to straddle both businesses successfully for long.

Challenges of this kind have long faced suppliers on the other side of the Atlantic, whose experience may offer pointers to future trends in the US. Private-label groceries are well established in Europe and have gained ground in recent years. In many northern countries they account for between a fifth and a third of the market.

In reality, private-label covers a wide spectrum of goods and marketing practices. In Germany, it is still largely confined – as it has traditionally been in the US – to discount generic products such as toilet paper, often of inferior quality.

But in Britain, chains such as Marks and Spencer, J Sainsbury and Tesco have developed sophisticated private-label ranges, which earn high margins and sometimes sell at a premium over branded lines. Many continental retailers, particularly in France, are now trying to emulate their example.

Private-label products are still dismissed by some brand leaders as cheap imitations. "When they flourish, it usually means branded marketeers are dozing," says Mr Michael Perry, chairman of Unilever, the Anglo-Dutch consumer products group. His solution is to "keep moving the goalposts" through faster product innovation.

However, UK supermarkets have been innovators in some fast-growing areas, such as chilled convenience meals. They also increasingly control the development, quality standards and marketing of the products they sell, turning many private-label suppliers into little more than contract processors. Above all, they have transformed their own names into powerful brands.

Will the US follow the same pattern? Sceptics point out that supermarkets there wield less clout than in most of Europe, partly because regulatory restrictions have kept the industry fragmented and prevented national chains emerging. The industry has also to recover from the turbulence created in the 1980s by a wave of leveraged buy-outs which has saddled many groups with heavy debt.

None the less, there is evidence that US private-label ranges are shedding their traditionally dowdy image. Safeway, for instance, recently re-formulated its soft drinks line and says it is now faring much better against Coca-Cola and Pepsi, which lost share to private-label rivals last year. One recent survey found that many consumers ranked the quality of many private-label goods equal to branded lines.

In part this trend may be due to the influence of European retailers such as Ahold of the Netherlands, Delhaize of Belgium and Sainsbury, which have acquired US supermarket groups in the past few years.

Since Sainsbury bought Shaws, a New England chain, it has concentrated on up-market private-label products carrying the Shaws name. The supermarket sells about 1,200 such items and added 300 lines last year. However, the formula has yet to improve profitability. Last year, Shaws' margins of 2 per cent were only a quarter of its UK parent's.

But whether or not the private-label challenge continues to grow, many branded US manufacturers expect leaner times on their home market. A recent survey of more than 100 big American consumer goods companies by McKinsey, the management consultancy, found they expected sales abroad to grow twice as fast as in the US in the first half of this decade.

Four-fifths of companies also said their overall success in the next five years depended heavily on international growth – up from half in the past five years. The clear message is that, whatever the fate of brands in the US, producers elsewhere can expect tougher competition.

Fossil fuel levy fails efficiency test

PERSONAL VIEW

The long-awaited Department of Trade and Industry white paper on coal reaffirms "the government's aim of a market-based policy for energy", with a preference for taxes and subsidies rather than directives and prohibitions. Given that national security has already been achieved by the current diversity of fuel supply, generators should be free to buy in the cheapest market. British coal must compete with imports, and will need a transitional subsidy until the industry is privatised.

The government's stated objective of bringing efficiency in energy policy makes sense, but there is one area in which it has failed by its own standard. Efficiency requires sensible taxes as well as competitive markets, and the fossil fuel levy (FFL) fails that test.

A report by the Trade and Industry select committee calculated that the FFL would eventually collect £9.1bn, primarily to meet the inherited liabilities of Nuclear Electric (including reprocessing, radioactive waste management and decommissioning), estimated at £9.3bn. It recommended that both the liabilities and the FFL income be transferred from Nuclear Electric's accounts. Both the coal review and the select committee agreed that existing nuclear power stations should continue to operate, so the FFL will in effect pay for past mistakes, not current operations.

If the FFL is needed only to pay for past mistakes, how should the revenue be collected? A good tax would fall on final consumers, as taxes on producers involve additional costs, because consumer prices are not only raised (as with any tax), but the tax also distorts production decisions, which further raises costs. If ICI was forced to close its chlorine plant because the FFL increases electricity prices, that would be an additional cost that could have been avoided if the tax had fallen only on final consumers, as value-added tax would.

The obvious solution is to replace the FFL with VAT on electricity. The FFL currently raises about £1.3bn a year, while the value of domestic electricity consumption is roughly £7.6bn. VAT on electricity would raise £1.33bn, almost the same as the FFL. Replacing the FFL (10 per cent) by VAT (17½ per cent) would raise the domestic electricity price by about 6 per cent, but this would be returned in the form of lower prices or higher profits from goods produced with electricity. VAT could be extended to other domestic fuels to avoid a bias against electricity, giving the government about £1bn extra revenue.

The obvious solution is to replace the fossil fuel levy with value-added tax on electricity

In the Budget, the Treasury accepted the logic of VAT on electricity, but made it additional to the FFL, rather than replacing it. Holly Sutherland of Cambridge University's Department of Applied Economics has shown that increases in domestic electricity prices have very adverse effects on the poor. Double taxation of VAT and FFL is particularly harmful.

There would be two immediate benefits from changing to VAT, correcting two shortcomings of the white paper. First, Electricité de France (EdF) exports "non-leviable" electricity to Britain through the cross-Channel link, meaning that the levy collected is paid to EdF. These payments were £95m in 1991-92. The select committee wished to stop them, but the government believes that may be illegal. It makes no sense to pay France £95m a year just to finance past British mistakes. If it is illegal to remove the non-leviable status, the problem can be avoided by abolishing the FFL, and moving Nuclear Electric's liabilities to the Treasury.

Second, the select committee suggested that larger users pay a lower and decreasing percentage of the FFL. The government accepts that certain large UK electricity users may be at a competitive disadvantage compared with their foreign counterparts, but responded with the fallacious argument that it would not be right to oblige smaller consumers to subsidise large users. The FFL is not a cost, only a device to recover revenue. It is good practice to exempt all producers, not just large producers, from such taxes. VAT automatically does that, and goes some way to removing an avoidable distortion in the electricity market.

Doubtless other distortions remain, of which the most important is that created by the market power of the two large generators. The high costs of the pool and the misallocation of the costs of security of grid supply to large users make matters worse. These at least are subject to review, while the design of the tax system is completely under government control, and should be addressed urgently.

David Newbery

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OBSERVER

ERM: unlucky for some

■ Norman Lamont should be mopping his brow over the fate of City economist Paul Temperton. Unlike the chancellor, who kept his job after September's hiccup on the foreign exchanges, Temperton has succumbed to a row at least partly linked to questions of turbulent currencies.

A strong supporter of the European exchange rate mechanism, the 34-year old has just left his job as head of international economics at the London office of Merrill Lynch, the US investment bank.

Right up to Black Wednesday, he was confident Britain would stay in the ERM. Then when events proved him as wrong as the UK government, he had trouble persuading Merrill Lynch colleagues to accept his line that the French franc would resist further devaluation pressures within the mechanism.

True, on the franc at least, Temperton has so far been right. But the former Bank of England economist's chagrin increased when a change of house view on the currency was forced through by Merrill's New York office.

The upshot is that he and his employer have agreed to end their seven years together. He is setting up on his own as an economic researcher, in collaboration with consultancy Oxford Economic Forecasting which hopes his move will increase its reputation in the City.

The effect on his earnings, alas, is in the other direction.

Capital idea

■ The sudden exit of yet another senior figure from Invesco MIM – Peter Knapton, in charge of the UK wholesale business – leaves the fund management group with an even greater gaping hole on the UK side of the now mainly American fund management group.

Since the middle of last year almost half of the staff at director level on the UK side have gone. By all accounts, the Devonshire Square office has been an even more unhappy shop since the departure the other week of finance director Ratan Engineer and half a dozen other colleagues.

It is felt that Norman Riddell, the new boss of the European operations, has been keeping rather too low a profile amid all the unpleasantness.

Now Invesco is holding its breath to see what sort of fine Imro will impose at the end of the self-regulatory body's long-running investigation.

But when it next has some cash to spare, the only sensible way to restore the tattered UK business – if that is what the Georgia-based executive chairman Charles Brady decides he wants to do – is by acquisition.

Observer does not know how well Riddell gets on with his former stablemates at Capital House, the Royal Bank of Scotland subsidiary which he set up and subsequently left to join Invesco, but it would be an obvious port of call if and when RBS shows any inclination to sell.

Trouble is, there is little point in an acquisition until the Invesco name becomes somewhat less of a liability.

Pooled venture

■ The Beijing restaurateurs who have pooled together to compete with invading fast-food chains have surely missed a trick. They should have called their new joint venture Donald's.

After all, it is duck they're relying on to win back market share from the hamburgers and such of chief interloper McDonald's, along with Kentucky Fried Chicken, Pizza Hut and numerous others.

The city now has about 300 junk-food sellers whose mostly foreign-style wares go down increasingly well with the 1.5m floating population.

In their counterattack, the plucky Beijingers are planning three quick-roast outlets in the capital and eventually 50 elsewhere.

Besides municipal authority backing, they have keen support from nearby farmers looking to feather their nests on extra demand for the ducks which it takes around two months to fatten to a standard weight of 3.4kg.

'I've booked you on the first plane to Cyprus, Simpkins'

Moreover, while the new venture's promoters may have missed the ideal name, there's still a touch of western marketing hype in the one they have chosen.

Even though they have apparently not yet cracked the problem of making the duck not just fast but flavoursome, they have called the company Quanjude which means "all virtuous".

Photo squall

■ Forget 30 per cent inflation a month, competitive decline and mounting home debt, the president of Brazil, Itamar Franco, is pre-occupied with a more pressing worry. It's that Rio de Janeiro's 20,000 taxis have taken to displaying his photograph on the price tables carried in their windows.

The idea was the response of Rio's mayor to a survey showing that a lot of Brazilians didn't know who their president was. So out went the beach scenes and so on normally fronting the price lists issued monthly to account for inflation, and up went Franco's photo.

Whereas most politicians would welcome the citywide parade of their image, he was livid. Seeing it as a sneaky way of blaming him for price increases, he demanded that the pictures be removed...only to have the mayor decline, saying they were tokens of Rio's homage to the president.

But Franco was not to be mollified. He has now issued a government decree ordering taxi-drivers to white out the photos on pain of a fine.

Some are saying he'd be better trying to wipe out the inflation instead.

Vested interest

■ Reader Ian Harding wonders whether there could have been a slip in the advertisement in Tuesday's FT calling for "a consultant to introduce low-cost factories supplying ladies' clothing to the UK. Please send brief details..".

FINANCIAL TIMES
Thursday May 6 1993

Yeltsin urged to recall Gaidar and restore impetus of reforms

By Leyla Boulton in Moscow

REFORMISTS in the Russian government yesterday suggested that the balance in the administration, which had recently tipped in favour of older conservatives, could be redressed by bringing Mr Yegor Gaidar back and removing the central bank governor.

Mr Gaidar, one of the architects of Russia's market reforms, was sacrificed by president Boris Yeltsin last December as a concession to his conservative rivals in parliament.

Mr Vladimir Shumeiko, deputy prime minister for foreign economic relations, was quoted by Itar-Tass news agency earlier as saying prime minister Viktor Chernomyrdin would soon meet Mr Gaidar to discuss a new role for the former minister.

Mr Shokhin said if Mr Gaidar returned to the government, he would replace Mr Boris Fyodorov, another reformist first deputy prime minister who has the finance ministry in his portfolio.

"There must be a whole chain of reshuffles in the government," Mr Shokhin said, adding Mr Fyodorov was tipped to replace Mr Viktor Gerashchenko, the central bank chairman – but was unlikely to do so unless Mr Gerashchenko stepped down voluntarily.

Doubts were also expressed about Mr Gaidar agreeing to return to the government under present conditions.

The free-spending central bank reports to the conservative parliament rather than the government, which has been fighting Mr Gerashchenko for control of monetary and credit policy.

"In today's . . . government, the balance is violated in the favour of ministers who represent the interests of industry," Mr Shokhin said.

Mr Yeltsin has recently named industrialists Mr Oleg Lobov and Mr Oleg Soskovets to important cabinet positions.

"To restore this balance, we need a reformist man with powers as first deputy prime minister, and I think both the president and prime minister realise this," Mr Shokhin said.

The appointment of a radical reformer to first deputy prime minister would mean that the quartet of first deputy prime ministers would be evenly split between reformers and conservatives.

In the continuing battle between Mr Yeltsin and his opponents, Mr Ruslan Khasbulatov, the parliamentary chairman, blamed May Day violence in which 579 people were injured, on the presidential camp. He spoke shortly before Itar-Tass news agency announced the death of a policeman critically injured during Saturday's demonstrations.

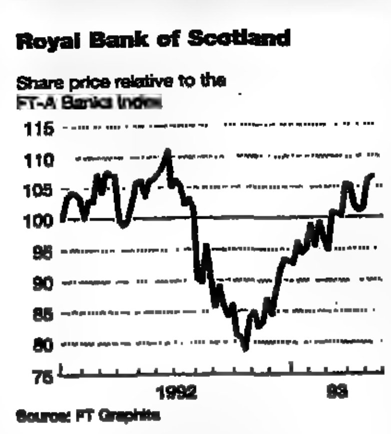
The Moscow mayor's office announced yesterday it had banned a demonstration planned this weekend by the National Salvation Front and other organisers of the May Day demonstration.

"What is it that radical democrats want to build here? A concentration camp?" Mr Khasbulatov asked in a speech in which he claimed that the May Day violence was the first result of the referendum won by Mr Yeltsin 10 days ago.

Official referendum results finally published yesterday confirmed Mr Yeltsin had won 58.7 per cent of a vote of confidence in himself, and 53 per cent had backed radical reform policies.

THE LEX COLUMN

Putting Royal to rights



It is at least arguable that George Soros has done more than the Royal Insurance management to pull the company's fat out of the fire. Were sterling still in the ERM and interest rates around 10 per cent, Royal would scarcely be back in the FT-SE 100 or asking shareholders for £404m at 255p a share. To be fair, the new team has imposed some useful discipline. But it is unclear to what extent the recovery in underwriting is a function of the improving market rather than management action. Bruised shareholders are meanwhile left to reflect on the £679m of pre-tax losses in the last three years and the £1.2bn of shareholders' funds which have evaporated from the balance sheet. Some may even think that a management asking for over £400m on the strength of scraping a quarterly profit of £2m is being a trifle opportunistic.

Patching balance sheet holes and raising the company's solvency margin are clearly strong motives for the issue. Last year, Royal made strenuous efforts to persuade the City to include the value of its life business in calculating solvency margins, to limited effect. Royal has still lost international commercial business to competitors as a result of its weaker capital base.

That will be less of a problem now. Direct line personal operations and the Royal Global's commercial business can make some use of the cash. It is that happy moment early in the roller-coaster insurance cycle after the excess capital has been lost and when money can be made from rising premiums before the market gets crowded. But crowded it will get. After 'one-off' issues from CU and Royal, it may only be a matter of time before another composite insurer jumps out of the window of opportunity.

Royal Bank

With its shares trading at a premium of 54 per cent to net assets, Royal Bank of Scotland has little need to worry about a bid from Lloyds or any other bank for that matter. The question is whether its performance will continue to justify a yield of only 4.2 per cent. On the plus side is Direct Line, whose first-half contribution more than trebled compared with the same period of 1992. RBS is adamant that it has no plans to float off Direct Line. Presumably, it could change its mind if flotation became necessary to support its own share price.

Less clear is the message from its traditional banking business. A 32 per cent increase in operating profit before provisions is impressive and the bank expects provisions to fall in the second half. But there is also the prospect of a £35m charge from the sale of Charterhouse in the full-year figures as well as a possible hit from property revaluation. RBS managed a striking £650m increase in its mortgage portfolio, which helps employ its surplus capital. But costs have also grown sharply, while the quadrupling of spreads on mortgage lending is unlikely to be repeated. The trouble with having too much capital is that management has to work all the harder to produce a decent return. At less than 12 per cent, RBS has not reached that point yet.

Tate & Lyle

The market has never been sure how to value Tate & Lyle. A string of canny deals and a spell of rigorous management in the 1980s almost convinced it that Tate's commodity sweetener businesses deserved a premium rating. But Tate's misfortunes in the US last year dispelled that delusion. The shares have bounced since but now seem merely to be tracking the dull food sector.

Tate's 20 per cent interim profits increase hints that a reassessment of its rating may be due. But once currency translation gains and the benefits of the green pound's devaluation are stripped out, the underlying earnings progress is lacklustre. The trouble is that it may not get much easier from here. Despite steadily improving cash flow, gearing will still be about 80 per cent at the year end, inhibiting debt-funded expansion. Paper may be issued. But since food assets in developed countries generally command higher multiples than Tate, that would threaten earnings dilution. Tate may therefore focus on developing countries, where assets are cheaper. That, however, will only raise questions about the quality of earnings, further impeding a rerating. Tate is not alone among UK food manufacturers in confronting this growth conundrum; it is, though, experiencing the pressure more acutely than most.

BAT

BAT's shares have fallen by nearly 9 per cent since Philip Morris put a torch to the cigarette price war. As the battle is unlikely to spread beyond the US, and only 20 per cent of BAT's operating profits come from its domestic US tobacco operations, that looks excessive. Yet until Philip Morris's strategy becomes clearer and the impact on discount as well as premium brands better understood, tobacco companies may remain under pressure. The turn in the insurance market may thus not be reflected in BAT's share price for some time. But with a 50 per cent yield premium to the market and dividend cover climbing back towards two, further falls must surely be limited.

Trafalgar House

Hongkong Land's coup looks pretty well complete now that it has secured four places on the Trafalgar House board, including those of chairman and finance director. It has done so, moreover, with a stake of just 25 per cent that conveniently allows it to equity-account the holding but does not oblige it to consolidate. In other circumstances, a rise to such dominance without a full bid might have provoked howls of protest. Trafalgar's intractable troubles presumably prompted the institutions to acquiesce in this case. Besides, they have the consolation of a share price more than double last year's low.

The precedent is disturbing just the same. This could be a new beginning for Trafalgar House, but it will not become another Bechtel overnight. Cash flow is under pressure and disposals are as remote as ever. Hongkong Land will not automatically repeat the miracle it has wrought at Kwik Save. One has to hope it succeeds. If not, other shareholders will lack the power to obtain redress.

Sell-offs are cutting Moscow's power, write **Edward Balls** and **Gillian Tett**

Russians ready to play the capitalist game

RUSSIAN president Boris Yeltsin's referendum victory appears not to have resolved the power struggle between supporters and opponents of economic reform which rages at the political centre. In the regions, however, away from Moscow, reforms are steadily being entrenched by the government's mass privatisation programme.

RUSSIAN PRIVATISATION

	Enterprises put up for sale	Regions involved
December	18	8
January	105	19
February	201	30
March	376	46
April	558	54

Source: GKI state property committee

Ministers and advisers at the headquarters of GKI (GosKomimushchestvo), the state property committee which is managing the privatisation programme under the direction of Mr Anatoli Chubais, the deputy prime minister, can barely contain their excitement.

In December, when voucher auctions for medium and large-scale companies began, 18 companies were sold. In April, 558 enterprises in 54 regions were up for tender, making the reformers' target of 5,000 sales by the end of the year more realistic.

In total, 1,547 of the 26,000 companies which employ more than 200 workers or have assets valued over Rbs1m will have been sold this month. Of these, 372 enterprises employ more than 1,000 people and account for 86 per cent of total employment in privatised enterprises.

Add to this the 33,400 small-scale enterprises that were privatised last year and the reason for the reformers' satisfaction becomes apparent. "Medium-scale privatisation is going like a train," says Mr Maxim Boiko, a senior adviser to Mr Chubais.

It is not surprising that parliamentary opposition to Mr Chubais has grown in recent months, accompanied by repeated calls for his resignation.

"The Chubais programme is really undermining the power of the state authorities," says Mr Sergei Vassiliev, director of the government's centre for economic reform. "They thrived on ill-defined property rights. That is why they oppose him."

Yet in the regions, governments – and, to a lesser extent local parliaments – are increasingly supporting the Chubais programme, with 71 regions out of about 90 organising auctions this month.

In Volgograd, 600 miles south of Moscow, Mr Konstantin Ogtoblin, director of the state property fund which sells property on behalf of GKI, is unequivocal: "I support the policy of Mr Chubais and his programme of voucher privatisation," he says.

The Volgograd state property fund has privatised 37 companies since January, ranging from about 100 employees to 26,000 at a giant tractor plant, and is privatising at the rate of 13 companies a week. Most privatised enterprises are now largely owned by workers and managers.

Critics of the programme doubt that privatisation will produce either new investment or restructuring, especially if worker-shareholders prevent managers from laying off surplus workers.

"I like Chubais," says Grigory Yavlinsky, an economist and critic of the government. "But what he is doing is not clear. You have to cut the roots from the bottom up – to separate housing from the enterprise and then demonopolise. Only after that can you privatise."

But in Volgograd the process of restructuring is slowly beginning. At Red Dawn, a washing machine factory producing 190,000 machines a year, the managing director plans to lay off 150 of his 700 workers after privatisation. Shopfloor workers at Red Dawn appear to accept the management's right to manage.

In spite of the sheer complexity of the privatisation system, the signs are that much of the population of the Volgograd region is prepared to give this new capitalist "game" a go.

Under the rules, each Russian has been issued with a rouble privatisation "voucher" which has a nominal face value of Rbs10,000 – a sum they can top up with money of their own. The vouchers can be sold on for cash, used to purchase shares in their place of work, "invested" in one of the five new investment trusts or used to purchase a limited quantity of shares in the companies up for auction at Volgograd's new share auction house.

Valentina Shegoleva shows a privatisation voucher to her son Sergei after collecting it from a St Petersburg bank

UK government faces legal battle on Maastricht treaty

By Philip Stephens and David Owen in London

AN ignominious climbdown by the British government over the Maastricht treaty's social chapter last night set the stage for a tortuous legal battle over the country's ratification of the treaty.

Facing certain defeat in parliament at the hands of an alliance of opposition parties and rebels in the ruling Conservative party, the government accepted an amendment which will delete from British law any reference to the treaty's social provisions.

That left Mr John Major, the prime minister, who underlined again yesterday his determination to press ahead with ratification, facing two potential legal challenges.

One is promised by rebels in his own party, who hope to persuade the courts that the amendment has undercut the legal basis for ratification of the treaty. Another is expected from trade unions who want to force the government to abandon its opt-out from the social chapter.

The embarrassing retreat came on the eve of today's by-election for the parliamentary seat of Newbury, where the Conservative majority of 12,357 is under serious threat from the Liberal Democrats. The government is bracing itself also for large losses in the simultaneous local government elections.

Mr Douglas Hurd, the foreign secretary, sought to play down the implication of the Maastricht decision by insisting that the retreat would affect neither ratification of the treaty nor the status of Britain's opt-out from the social chapter.

In a skilful and confident House of Commons performance which helped to minimise the government's public humiliation, Mr Hurd told members of parliament that the amendment was "tiresome and undesirable but in practice irrelevant". The fact that the social chapter and the accompanying British opt-out would not now be incorporated into domestic law would not remove them from the treaty.

The attorney-general has advised the government that it can press ahead with the ratification process. But Mr Hurd conceded that a legal challenge, which could be mounted by Conservative opponents to Maastricht rebels within weeks, might delay ratification of the treaty. Ministers were admitting privately that the amendment will prolong the government's political agony over Maastricht.

Mr Major was said to have been intensely annoyed by the decision of Miss Betty Boothroyd, the speaker, to agree a debate on the amendment.

Background, Page 7
Editorial Comment, Page 13

Scandal rocks Italian left

Continued from Page 1

government within 10 hours of it being formed. Only yesterday were four new ministers, all technicians, sworn in.

Many deputies were convinced that in the Craxi vote secrecy was itself abused. Members of the opposition like the populist Lombard League, the hardline communist group, Reconstructed Communism, and the Network (La Rete) are believed to have voted to preserve Mr Craxi's immunity – with the aim of embarrassing the government.

The decision coincided with the late night agreement on Tuesday by the Socialist party not to contest magistrates' requests for its deputies to be investigated.

In an attempt to improve its image, the party also agreed that members under investigation, especially the 54 in parliament and the main party apparatus, should be suspended. The party, which has a new leader, Mr Giorgio Benvenuto, is also planning a new name and symbol.

World Weather

		°C	°F
Ajaccio	S	19	66
Algiers	R	15	59
Amsterdam	S	12	54
Athens	C	19	66
Bahrain	F	31	88
Bangkok	F	36	97
Barcelona	S	18	64
Beijing	S	21	70
Beirut	S	19	64
Belfast	C	14	57
Belgrade	F	19	66
Berlin	C	13	55
Bermuda	F	22	72
Bombay	F	32	90
Bordeaux	S	22	72
Boulogne	S	14	57
Brussels	S	14	57
Budapest	C	20	68
Buenos Aires	C	16	61
Cairo	F	25	77
Cape Town	C	18	64
Caracas	F	29	84
Casablanca †	C	19	66
Chicago †	C	12	54
Cologne	F	15	59
Copenhagen	S	11	52
Corfu	F	19	66
Dallas		-	-
Dublin	S	14	57
Dubrovnik	C	20	68
Edinburgh	S	14	57
Faro	C	19	66
Florence	S	25	77
Frankfurt	F	16	61
Geneva	F	16	61
Gibraltar	F	18	64
Glasgow	F	15	59
Helsinki	S	17	63
Hong Kong	R	23	73
Innsbruck	S	18	64
Inverness	F	14	57
Islamabad	F	39	102
Istanbul	F	14	57
Jakarta	R	32	90
Johannesburg	S	24	75
Lisbon	S	20	68
London	F	12	54
Los Angeles †	S	13	55
Luxembourg	S	15	59
Madeira	F	19	66
Madrid	F	20	68
Majorca	S	21	70
Malaga	F	21	70
Malta	S	21	70
Manila	F	36	97
Melbourne	C	14	57
Mexico City	C	25	77
Miami †	S	25	77
Milan	S	23	73
Montreal †	R	15	59
Moscow	F	22	72
Munich	F	15	59
Nairobi		-	-
Naples	S	20	68
Nassau	F	28	82
New Delhi	S	41	106
New York †	C	13	55
Nice	F	22	72
Nicosia	S	18	64
Oporto	S	20	68
Oslo	C	9	48
Paris	S	16	61
Prague	S	11	52
Reykjavik	F	6	43
Rhodes	S	19	66
Rio de Janeiro	R	34	93
Rome	S	20	68
Salzburg	F	15	59
S'Francisco †	S	10	50
Seoul	C	20	68
Singapore	R	26	79
Stockholm	S	14	57
Strasbourg	C	13	55
Sydney	S	18	64
Taipei	C	26	79
Tangier	C	18	64
Tel Aviv	C	20	68
Tenerife	C	19	66
Tokyo	F	19	66
Toronto †	C	14	57
Tunis	F	22	72
Valencia	F	19	66
Venice	S	22	72
Vienna	R	11	52
Warsaw	S	16	61
Washington †	Dr	18	64
Zurich	C	11	52

Temperatures at midday yesterday
† Noon GMT temperatures
C–Cloudy Dr–Drizzle
F–Fair Fg–Fog H–Hail
R–Rain S–Sunny
Sl–Sleet Sn–Snow
T–Thunder

FINANCIAL TIMES
COMPANIES & MARKETS
Thursday May 6 1993

INSIDE

EC bankrupt reprieve for Klöckner-Werke

Klöckner-Werke, the German steel and engineering group, yesterday won a reprieve from outright bankruptcy, when the European Commission decided not to demand immediate full repayment of its DM175m ($111.4m) loan to the group. Klöckner said yesterday the way was now clear for its debt relief scheme to go through. But the company must satisfy the commission that planned capacity cuts and restructuring will not distort EC plans to support the European steel industry. Page 17

Few silver linings in Mexico

Mexico's silver industry is in turmoil after prices steadily tumbled over the past decade. Hundreds of smaller companies have already closed as the world's largest silver producer faces an uncertain future. Now some in the industry predict that no more than 20 low-cost mines will survive the current shake out. Page 26

Turning the tables on Wall Street

New York-based KeyCorp's British investors could have the last laugh on Wall Street. Eight years ago the financial pundits said KeyCorp's strategy of acquiring banks in Alaska, Oregon and Washington was crazy. But the company's long time British investors stood behind the move into the Pacific north-west. "Many of the Scottish folks told us: 'Right on, you're doing the right thing,'" KeyCorp chief executive Victor Riley recalls. Page 20

Polly Peck fears well founded

The UK Serious Fraud Squad feared that Polly Peck International chairman Mr Asil Nadir would flee the UK to escape the prospect of a criminal trial and possible imprisonment. Page 16

Canadian Pacific back on track

Canadian Pacific, the transport, resource and property group, returned to profitability in the first quarter helped by special gains. But Mr William Stinson, chairman, told the annual meeting the results were "disappointing", despite two years of radical restructuring. "However, the improvement in our share price to around C$21 from a 52-week low of C$13⅛ reflects the group's future potential. I am very optimistic as we come out of the long recession," he said. Page 18

Royal Bank of Scotland up 91%

A return to profit in its core branch banking business helped Royal Bank of Scotland increase interim pre-tax profits by 91 per cent from £48m ($73.92m) to £91.6m. Lord Younger, chairman, said: "The upturn in performance at the full year is not only being sustained, but is gathering momentum." Page 23

Market Statistics

Companies in this issue

Chief price changes yesterday

FRANKFURT (DM)			Cablevision	31	- 2¼
Rises			Comcast	18¾	- 1¼
Asko	645	+ 15	Time Warner	34¾	- 1¼
Douglas	515	+ 15	**PARIS (FFr)**		
Kaufhof	475	+ 15	Rises		
Schering	759	+ 15	Bancaire Cie	455	+ 13.5
Falls			Cred Lyon	640	+ 10
BFI Bayer	960	- 18.5	Eridania B-Say	730	+ 21
Wella Pf	680.5	- 10.5	Gaumont	370	+ 20
NEW YORK ($)			Falls		
Rises			EBF	670	- 13
Centocor	7⅞	+ 1	Schneider	868	- 17
ITT	82⅛	+ 1⅛			
Falls					
AMR	67⅛	- ⅝			
Tokyo closed. New York prices at 12.30.					
LONDON (Pence)			BAT Inds	860	- 23
Rises			Coats Viyella	231	- 6
Bellway	260	+ 10	Comm Union	574	- 13
Campari Intl	145	+ 12	[illegible]	178	- 18
Cook (DC)	24	+ 4	Dixons	208	- 9
[illegible]	656	+ 35	Fyffes	108	- 10
Eurocamp	63	+ 8	Glaxo	366	- 68
Garton Eng	78	+ 5	[illegible]	631	- 14
[illegible]	88	+ 6	RTZ	660	- 9
Kwik-Fit	137	+ 5	Royal Insce	287	- 9
Micro Focus	2085	+ 65	Steel Burrill	208	- 8
Palmer	125	+ 10	Tomkins	236	- 7¾
Rentokil	408	+ 18	Williams	326	- 10
Falls					
[illegible]	6	- 1¼			

Generous buy-out of joint chip venture will burden Japanese group's finances

Philips tumbles 36% to Fl 103m

By Ronald van de Krol in Eindhoven

PHILIPS, the Dutch electronics group, said net profit fell by 36 per cent to Fl 103m ($57.9m) in the first quarter, largely as the result of a sharp decline in its communications systems business.

In spite of the fall in overall profit, yesterday's figures showed that operating losses in Philips' consumer electronics, its biggest and most important business, had stabilised, while two other businesses – lighting and semi-conductors – had posted operating profit rises of 19 per cent and 67 per cent, respectively.

However, the group's fourth business, professional products, was hit hard by the sharp reversal in the fortunes of communication systems. A drop in orders from Germany's telecommunications authorities helped push the sector into an operating loss of Fl 8m from a profit of Fl 128m the year before.

Group sales fell by 2 per cent to Fl 13.75bn, reflecting poor economic conditions in Europe.

On the Amsterdam stock market, which had been braced for a loss, Philips' shares soared by nearly 8 per cent to close up Fl 2 at Fl 27.30.

The operating loss in consumer electronics was barely changed at Fl 55m compared with Fl 59m. Price erosion for consumer electronic equipment totalled 2 per cent in the quarter, but Philips also managed to get its costs down, producing a roughly similar loss.

In 1992, when restructuring *provisions pushed Philips into a* net loss of Fl 900m, consumer electronics ran up total operating losses of Fl 553m.

Mr Dudley Eustace, Philips' finance director, said: "The consumer electronics business in Europe remains extremely difficult, particularly in Latin countries," where last autumn's currency devaluations meant that higher costs in guilder terms could not be passed on to consumers.

The US, however, has continued to grow, with the number of colour televisions sold up 13 per cent compared with early 1992.

Mr Eustace, who joined Philips from British Aerospace in 1992, said renewed efforts at asset and cash management had paid off.

Matsushita deal leaves puzzle

By Charles Leadbeater in Tokyo, Ronald van de Krol in Amsterdam and Alan Cane in London

THERE was an echo of the good old days about Matsushita's announcement last week that it was finding billions of yen to buy out Philips of the Netherlands from their ailing semiconductor joint venture.

Matsushita will pay Y185bn ($1.66bn) – in cash and by the end of the month – for Philips' 35 per cent stake in the venture which ranks 10th in the world league of semiconductor producers, well behind the industry's US leaders in technology and market share.

Only two and a half years ago Matsushita, the world's largest consumer electronics group, paid $6.1bn for MCA, the Hollywood film company, in a bold move to marry entertainment, films and music to its core hardware business making televisions, video recorders and audio equipment.

The scale of the transactions is their only similarity. The MCA acquisition seemed to symbolise Matsushita's ambition, resources and determination to internationalise and buy its way to higher growth through combining consumer electronics software and hardware.

The purchase of Philips' stake in their ailing semiconductor joint venture, the Matsushita Electronics Corporation, heavily involved in commodity chip production, seems to have been largely forced on a reluctant Matsushita by Philips' desire to get out.

Philips' motivation was clearly financial, and the only surprise is that the Dutch company is getting such a hefty sum for its shares: the Y185bn it will receive from Matsushita is equivalent to Fl 3bn – enough to make a healthy dent in its debt burden of more than Fl 16bn ($8.4bn).

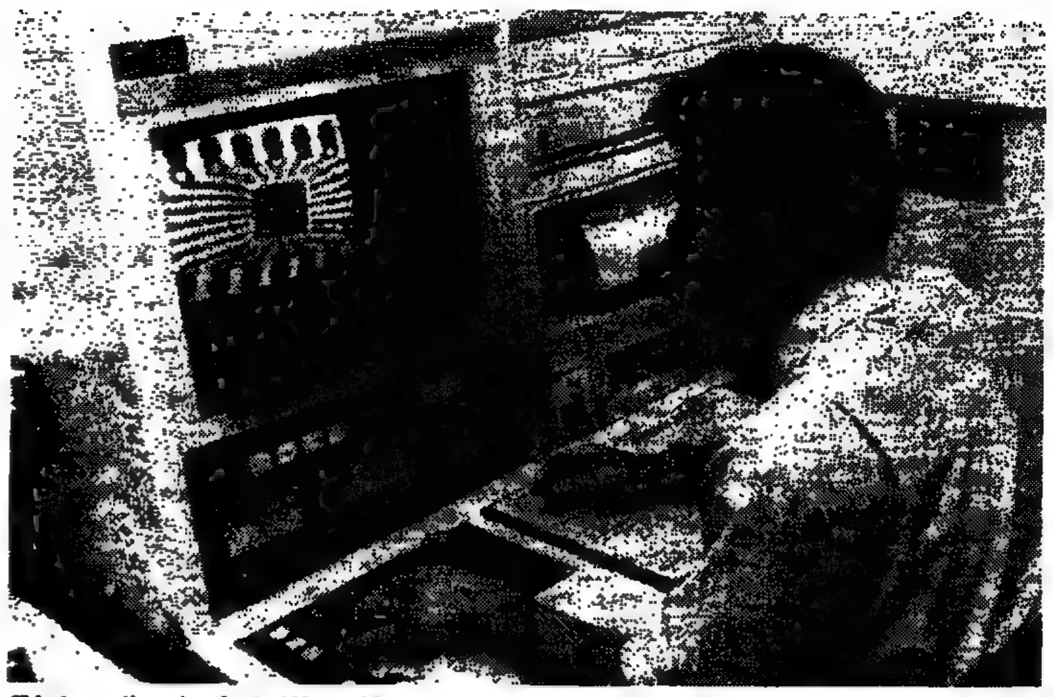
But the more intriguing question is why Matsushita, facing *the prospect of a 50 per cent fall* in pre-tax profits for the year to March, was prepared to pay so much for what appears to be so little?

The company faces a sharp downturn in Japanese consumer spending, compounded by the loss of export competitiveness after the yen's recent rise against the US dollar.

This downturn has amplified structural changes in its main consumer electronics markets. About a fifth of Matsushita's sales come from television and video recorders. Markets for these basic products in developed countries are saturated. New products such as high-definition television have not taken off.

The disappointing record of HDTV is one reason why Matsushita' purchase of MCA has been less successful than hoped: there is less growth in the market for MCA's software. Financial strain of the MCA acquisition was one reason for Matsushita's decision to make a $1bn bond issue last year.

The scale and complexity of Matsushita's operations – it has 315 subsidiaries, 138 outside Japan – combined with its conservative management traditions mean it is unlikely to cut costs or restructure aggressively, in spite of a recent reshuffle in top management, with the resignation of Mr Akio Tanii as president.



Chip inspection at a plant of Matsushita Electronic Components, from which Philips has withdrawn

Analysts, who estimate that Philips stands to show a gain of between Fl 500m and Fl 1bn, are confident the group will now report a substantial profit for 1993.

The partnership, established in 1952, has not brought Philips the access to Asia markets it once hoped for. MEC's main customers are Matsushita's plants in Japan. By contrast, benefits for Matsushita are harder to fathom.

Matsushita says the venture, with plants in Europe, the US, south east Asia and China, was suffering from cumbersome decision making. It thought Philips may have been wary of sanctioning heavy investment in MEC to maintain competitiveness.

Matsushita may see something in MEC which no one else can spot. That may be in Philips' technology, which Matsushita still gets access to under the deal.

Indeed, the deal with Philips may add to the impression of Matsushita as a company driven by events. Philips, which will remain the ninth largest semiconductor producer in the world, initiated the talks six months ago by saying it wanted to leave the venture.

Mr Dudley Eustace, Philips' finance director, declined to say yesterday how large a book profit the Dutch company could expect on the deal, saying this was an "exceedingly sensitive" figure.

By severing the partnership Matsushita will now be able to compete for semiconductor business in Europe against Philips.

Matsushita is in a much stronger financial position than Philips. But the deal will add to the growing strain on its balance sheet. After building up cash in the late 1980s, Matsushita swung into net debt after the MCA acquisition. Its gearing for the last financial year is likely to be above 40 per cent.

In addition Matsushita will have to carry all the burden of investment in MEC when other semiconductor makers are increasingly relying on alliances to cut costs and risks.

Several factors could explain why Matsushita decided to pay such a high price for the stake.

● Matsushita may see something in MEC which no one else can spot. Ms Susan Anthony, electronic industry analyst at Robert Fleming stockbrokers in London, said it was "incredible" the Japanese group was prepared to pay so much: "There must be something hidden there that Matsushita wants very much." That may be tucked away in Philips' technology, which Matsushita still gets access to under the deal.

● Matsushita may have feared Philips would obstruct the venture's development or, worse, try to sell its stake to a competitor.

● Far more important for both companies are collaborations in new products such as compact disc interactive. It is likely this collaborative approach to standards and product development will be increasingly important in the slow growth consumer electronics markets of the 1990s.

The cash injection will help Philips maintain its new product development in *areas which* could benefit Matsushita. At the least Philips will be a healthier European customer.

However, Matsushita may have confirmed that it has not learned from the experience of paying so much for MCA. As an analyst at one western securities company put it: "They still think they are rich enough to pay too much for assets they want. It could have been strategic but it could be that old habits die hard."

Telephone costs hit German engineer

By David Waller in Frankfurt

MANNESMANN, the big German engineering group, yesterday said that profits on continuing operations dropped by almost a half to DM339m ($212m) from DM625m last year. This was about one-third of the DM1bn net profits which the group made in 1990. At the German parent company, net profits dropped to DM244m from DM389m.

Mannesmann blamed the drop in profits on the costs of setting up its mobile telephone network. It said it would cut its dividend from the DM9 per share paid in 1991 to DM6. As already announced, turnover rose to DM28bn last year from DM24.8bn in 1991.

Mannesmann said that the costs of developing the telephone network were DM340m last year, up from DM235m in the previous year. Further details were not disclosed, but the group has said that its steel tubes, trading and *vehicles components divisions* were all loss-making last year.

The engineering and plant business made profits, whilst earnings from electrical and electronic engineering were unchanged.

The figures benefited from a return to profitability at the group's Brazilian operations which had been in deficit for two years. The group's total order intake rose to DM27.8bn from DM25.3bn.

The steep fall in profits reflects the worldwide fall in demand for capital goods as well as the German recession. Analysts criticised the company's aggressive move into the troubled car components sector. VDO Adolf Schindling, the components company bought in October 1991, this week announced it would be shedding 1,300 out of 8,300 jobs this year and would make substantial losses.

Mannesmann's shares fell DM2.30 to close at DM249.20.

● Kaufhof Holding, one of Germany's biggest retailing groups, reported that *profits* rose by more than a third last year to DM222.4m. Turnover rose by 14.7 per cent to DM20.5bn. The group is proposing to pay an unchanged dividend of DM12 for each ordinary share and DM13 on its preference shares. Kaufhof gave no reasons for the profits expansion but in February attributed it to a strategy of expanding into high-growth niche markets, reducing its dependence on department stores.

Rhône-Poulenc group may sell stake in Roussel-Uclaf

By Alice Rawsthorn in Paris

RHONE-POULENC, the French chemicals company, is considering a public sale of its 35 per cent stake in Roussel-Uclaf, the pharmaceuticals group, on the stock market.

The sale of the Roussel stake, which would be worth FFr1.02bn ($188m) on yesterday's share price of FFr548, is one of a number of options being considered by Rhône-Poulenc in conjunction with Hoechst, the German chemicals group that controls Roussel with a 54.5 per cent holding.

Rhône-Poulenc yesterday confirmed a French newspaper report that it was discussing the possibility of a share sale with Hoechst. However, it was also considering other forms of divestment, which were believed to include the transfer of assets and products.

Meanwhile, Roussel announced that it planned to extend the mandate of its managing board chaired by Mr Edouard Sakiz until the end of the year to stabilise the company during the discussions over the future of the Rhône-Poulenc stake. Mr Sakiz, 67, had been due to retire at the end of next month.

Roussel is a specialised pharmaceuticals company best known for its controversial abortion pill. It saw net profits rise by 72 per cent to FFr1.03bn last year from FFr598m in 1991 on consolidated sales of FFr14.8bn.

The fate of the Rhône-Poulenc stake should be decided by the end of this year. Rhône-Poulenc, which is 43 per cent owned by the French government, was given the shares by the state in 1990 as part of a general reshuffling of public sector chemical and pharmaceutical interests.

Under the terms of the government's agreement signed in June 1987, the Roussel stake was to be held for six years until June 1993 when its ownership would be subject to renegotiation.

Rhône-Poulenc is subject to the same terms, but it has secured Hoechst's consent to extend the current agreement until the end of the year.

Rhône-Poulenc, a prime candidate for privatisation by France's new conservative government, is believed to be keen to sell the shares because of the lack of synergy between its interests and those of Roussel, and because it prefers controlling holdings rather than minority stakes.

BT share sale set for mid-July

By Roland Rudd

THE sale of the UK government's remaining shares in BT, the telecommunications group, is to take place in the middle of July.

Ministers believe regulatory issues posed by the Monopolies and Mergers Commission investigation into British Gas, the privatised energy utility, should not affect the BT sale. The MMC's report is due in July.

A number of companies planning to go public have already brought forward their flotations in anticipation of the timing of the BT sale and others looking at a flotation may now consider going early.

The government yesterday expanded its share shop scheme, established as part of the second tranche of BT shares sold in 1991.

SG Warburg, the government's global co-ordinator, announced that more than 150 companies with around 10,000 outlets will act as share shops in the third sale of BT shares. Last time the government selected eight preferred retailers.

The gap between the close of the retail offer and book-building exercise and the start of dealing is to be less than one week.

The marketing campaign will be launched on May 24 after publication of BT's full-year results on May 13. The government is expected to sell most, if not all, of its 22 per cent BT stake – worth more than £5bn.

Share shops, including the four big clearing banks, will be entitled to market their services under the branding of the share shops symbol, a bull and a bear, and to display the offer logo from the launch of the sale.

Mr Stephen Dorrell, financial secretary to the Treasury, said: "We believe the share shop scheme will be a major step forward in helping share dealing services become more accessible to the public."

Small investors will be able to choose between registering with the government's share information office or registering with a share shop. Those registering with and applying through a share shop will receive greater preference in allocation if there is heavy demand for the shares.

Warburg will be responsible for running the book-building exercise in every region of the world. Companies with impending floats include RJB Mining, the Nottinghamshire-based coal mining group and RPC Group, the packaging company.

COMPANIES: ASIL NADIR FLEES TO CYPRUS

The island where inquiries reach a dead end

All roads in the Polly Peck scandal have led to Cyprus. Asil Nadir brought much investment to the Mediterranean island but millions from his international empire have also drained away there. **Richard Waters** and **Andrew Jack** report

THE BATTERED remains of Mr Asil Nadir's once high-flying business empire lie in a dusty corner of the Mediterranean, tucked close to the Turkish mainland.

An unseemly squabble has been under way in northern Cyprus for more than two years over the last scraps of the carcass of Polly Peck International, a group whose activities at its height ranged from fresh fruit to hotels and electronics.

So far the wrangle has produced no cash. Just frustration for the army of lawyers and accountants trying to recover the £1bn that Polly Peck owed to its creditors.

For serious students of Polly Peck, all roads have always led to northern Cyprus, Nadir's birthplace. The self-proclaimed Turkish Cypriot republic remained his home throughout the period that he built Polly Peck from an East End clothing company to a disparate group with operations around the world.

Thanks to the investment he brought to the island – much of it financed by Polly Peck's creditors – Nadir has enjoyed the status of a local hero.

Northern Cyprus was also the drain down which Polly Peck's wealth eventually disappeared. Some £500m of the group's cash was sucked into the republic. Investigators trying to find out where it went next have found the trail difficult to follow.

Much of that money is alleged to have been routed back from Cyprus into banks in London, to buy shares in Polly Peck as part of an illegal operation to support the company's share price in the late 1980s.

Mr Nadir personally borrowed millions of pounds more from banks to finance further share purchases in a move which was to push him deep into debt and eventually, when Polly Peck collapsed, into bankruptcy.

Much of the money routed to Cyprus has not been traced at all. More than £200m was supposedly used to buy development land in the republic. However, Mr Michael Jordan of Cork Gully, in charge of the Polly Peck administration, said yesterday no leases on the land were ever granted, and the property remains in the possession of the government of the republic. Where the cash went is not known.

The breakaway republic has presented countless other problems for Polly Peck's bankers and other creditors. Lawyers have fought to establish their claims over Polly Peck assets on the island, a process which has been hampered by the fact that the republic is not recognised by the UK (or any other country except Turkey).

Attempts to sue the Central Bank of Turkish Cyprus, and against Mentes Aziz, the lawyer against whom charges were brought and later dropped by the Serious Fraud Office, have all come to nothing.

A settlement was agreed last week with the central bank, and a settlement to the claim against Aziz has also been negotiated, Jordan said yesterday.

He added said that he had received assurances from Aziz yesterday that Mr Nadir's departure for northern Cyprus would not interfere with the sale of Polly Peck's businesses on the island, which include hotels and fruit processing and packaging plants. The pressure being put on the Turkish Cypriot government for Nadir to return for trial, though, suggests that relations could take another turn for the worse.

It is all a long way from the late 1980s, when Mr Nadir's Polly Peck had appeared to secure itself a special position among the many wonder-stocks produced during that decade.

The company's share price had jumped more than a thousand-fold in ten years as it climbed into the list of the top 100 UK-based groups, making it the best-performing stock of the decade. Its operations included the Del Monte fresh fruit business, since sold by the administrators, and Sansui, the Japanese electronics company.

The trappings of wealth assembled by Nadir during the rise of Polly Peck – the racehorse, the paintings, the country estate – were all to be stripped away later by bankruptcy.

Mr Neil Cooper, a partner with accountants Robson Rhodes, who is trustee in bankruptcy to Mr Nadir, said: "I am still hopeful that Mr Nadir might find he is able to put together an offer to his creditors that might be acceptable. Otherwise he will be an undischarged bankrupt all his life. I believe he would prefer to return to London where he has chosen to live."

However, Mr David Pollock of accountants Touche Ross, who is working on the recovery of assets for the administration, said that if the Serious Fraud Office decided to drop criminal action against Mr Nadir, that could speed up civil action under which the administrators are trying to recover £370m from Mr Nadir. "We will continue our investigations. I assume it won't get any easier," he said.

Private jet made to order for a quick getaway to freedom

By Daniel Green

IT WAS not the luxury to which Mr Asil Nadir was accustomed.

The flight from the UK to sanctuary in northern Cyprus was aboard a small private jet. Its short range forced at least one stop en route. There was not even a hostess on board to serve the drinks and snacks from the mini-bar.

Mr Nadir had spent the previous evening at his home in one of London's best addresses, Eaton Square, Belgravia, after his weekly visit to West End Central police station in Savile Row. The one-mile trip was one of the conditions of his bail.

But by lunchtime on Tuesday, he was almost certainly at one of London's many smaller airports, boarding a white executive jet with few markings.

Within an hour he was outside UK airspace, by early evening in Turkey and at 10.30pm local time, at Ercan airport in northern Cyprus.

His escape plans need not have been laid far in advance.

The secretive world of private jet charter and ownership thrives on the desire by business executives and politicians to travel at short notice and conceal their movements.

Nor is there a legal obligation for anyone leaving the country to produce a passport. The requirement is only to have the right papers when entering the country.

The British pilot's flight plan would not necessarily have been a guide to where an aircraft is going: flight plans can be, and are, changed during flights, most usually to avoid bad weather.

"There is nothing stopping anyone hiring an aircraft and flying anywhere," said the Civil Aviation Authority.

Once away from the main flight paths, an aircraft can travel unnoticed by air traffic controllers. By choosing the right route, it is possible to fly all the way from London to Cyprus without entering controlled airspace.

There were reports yesterday that Mr Nadir's aircraft had followed a more direct route via France and Turkey.

A quick first stop would have helped cover the escape trail: the aircraft's charterer need only have bought a small amount of fuel in the UK to avoid arousing suspicions that a long journey was planned.

Nor was it clear last night from which airport he had left.

There were conflicting reports that Mr Nadir travelled from Scotland, that he flew from the London area and finally that his aircraft had taken off from British Aerospace's private airport at Hatfield.

BAe said yesterday that it believed the passengers on the six private jets that left during the day were regular travellers, well-known to the company. Only one aircraft was going to France, a Cessna Citation, and all three passengers on board were known to BAe.

Hatfield has no permanent customs and immigration post. BAe checks that passenger lists and passports match.

ASIL NADIR IN CYPRUS

The route to escape

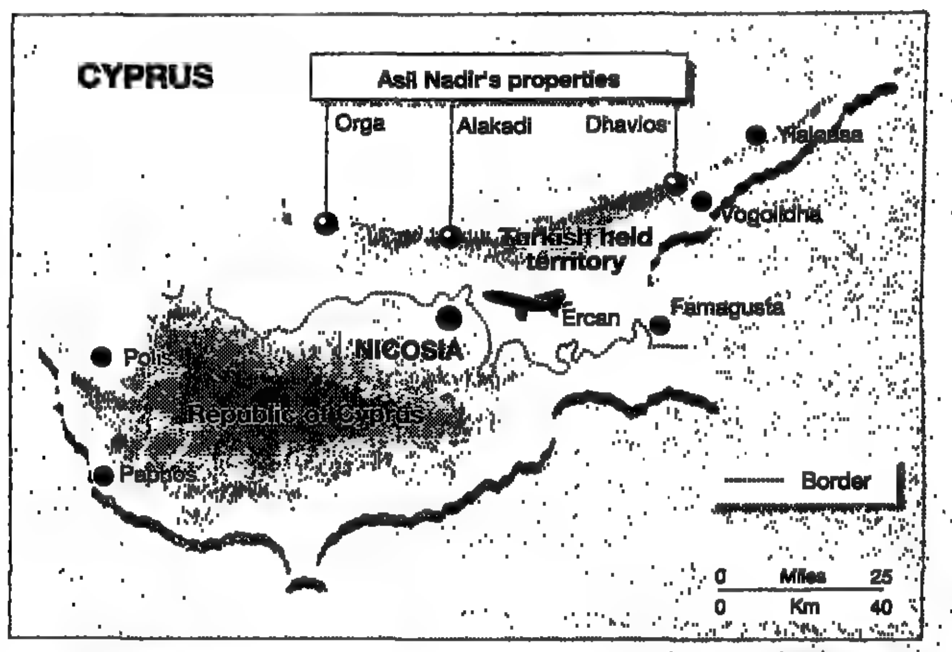
Serious Fraud Office
Police attached to the SFO arrest Asil Nadir at Heathrow airport as he arrives on a flight from Turkey in December 1990. He is charged with theft and false accounting.

The courts
Bow St magistrates court. Concerned Mr Nadir will flee the country, the SFO opposes bail and asks for him to be kept in custody. The magistrate refuses, but imposes record bail of £3.5m.

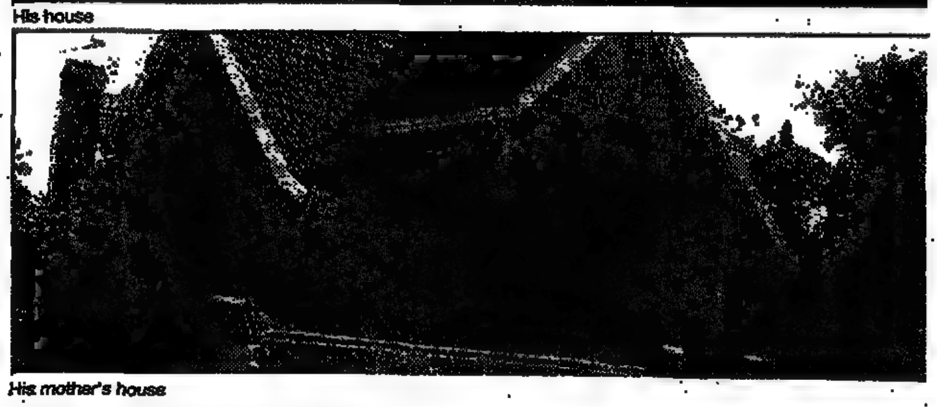
The flight
He leaves UK lunchtime Tuesday in small white private jet, arriving Istanbul 10.30pm local time. UK law does not require anyone to produce a passport before leaving the country.

The police
Savile Row police station. Mr Nadir reports weekly to police according to his bail conditions. He makes he last visit on Monday this week.

Where he has fled




His house


His mother's house

What he has left behind

ASSETS: realisations to date	Under £100,000
Amounts held in companies, trusts and various investments	unknown
Three oil paintings	£0.9m

LIABILITIES:	
Writ from the administrators of Polly Peck	£370m
Bank debts	£100m

Slap in the face for bail rules

By John Mason, Law Courts Correspondent

FROM THE moment of Mr Asil Nadir's arrest, the Serious Fraud Office always feared he would flee the UK to escape the prospect of a criminal trial and possible imprisonment.

These concerns prompted the SFO to oppose bail being given to him – a highly unusual move in important cases of alleged fraud.

The request for Mr Nadir to be held in custody while awaiting trial was turned down by the courts. But despite some of the most severe bail conditions ever imposed by a magistrates' court, the SFO's concerns have now proved to be well-founded.

Mr Nadir's flight to northern Cyprus has exposed two large holes in the ability of the criminal justice system to bring fraud suspects to justice – the ease with which bail can be jumped and the problems of extradition back to the UK.

With SFO cases usually taking two years between arrests being made and trials starting, courts have refused to countenance someone being imprisoned that long before trial.

Instead, Bow Street magistrates' court set severe bail conditions. Sureties and securities totalling a record £3.5m were demanded, Mr Nadir's UK and Turkish passports were confiscated and he was ordered to report to the police weekly.

The sureties were provided by Mrs Ayesha Nadir, Mr Nadir's ex-wife, who put up £500,000, and Mr Ramadan Guney, a Turkish businessman and distant relation of the Polly Peck chairman, who provided £1m. Mr Nadir himself had to provide a security – money lodged "up front" with the courts – of £2m.

Mrs Nadir and Mr Guney are now both due to pay their sureties or risk jail sentences themselves. Mr Nadir has clearly written off his £2m as the price of escaping the British courts.

With no extradition treaty between the UK and northern Cyprus, whose government is recognised only by Turkey, Mr Nadir is now at no risk of prosecution. He can also travel extensively in the developing world where many countries – notably Moslem nations – do not have extradition treaties with the UK.

Mr Nadir is not the only fraud suspect to use the gaps in extradition arrangements to avoid prosecution. The investigation into the collapsed Bank of Credit and Commerce International was hindered from the outset by the fact that the two most prominent protagonists, Mr Agha Hasan Abedi, the bank's founder, and Mr Swaleh Naqvi, his right-hand man, were living, safe from prosecution, in countries where no extradition treaties exist with the UK or the US.

Mr Nadir's flight has left lawyers and police wondering how a similar situation can be avoided in future. All agree, however, that there are no simple and ready answers.

Mr Nadir has demonstrated that the most severe of bail conditions can be no disincentive. The only alternative is to hold defendants in prison for up to two years. Until now, this has been regarded as unthinkable. But many lawyers have observed that the Maxwell affair has led to the courts making decisions that increasingly support the SFO. After Mr Nadir, the possibility that fraud suspects may spend considerable time behind bars before trial may not be so remote – if the SFO can bring cases to court more quickly.

Labour calls for review of the case

By Ivor Owen, Parliamentary Correspondent

MR NADIR'S flight from Britain was yesterday seized on by Labour leaders as another example of the need for more effective procedures for countering fraud.

Ministers ignored demands for an immediate Commons statement as criticism was led by Mr Alistair Darling, Labour spokesman on Treasury affairs.

He said Mr Nadir's departure from the jurisdiction of UK courts was a matter of "great importance – damaging the ability of this country to prosecute serious City fraud".

Miss Betty Boothroyd, the speaker, told Mr Darling: "You are referring to the man in question as if he had already been found guilty. That you must not do."

She said no minister had submitted a request to make a statement on the matter.

Mr Richard Caborn, the Labour MP who is chairman of the Commons trade and industry select committee, said later yesterday that the fact that bail for Mr Nadir was set at £3.5m should have ensured that he was subject to the most stringent surveillance.

"Clearly there needs to be a review of the arrangements made in this case," he said.

SFO can do little more than make token gestures

By John Mason

THE TRIAL of Mr Asil Nadir – one of the most high-profile prosecutions brought by the Serious Fraud Office – was due to start on September 13 this year.

The Polly Peck chairman faced 13 charges alleging he stole £34m from the company. There is now no chance that the trial will take place.

With Mr Nadir beyond reach in northern Cyprus, the SFO can do little except make token gestures. In a short statement yesterday, it said it was considering further action, including issuing a fresh warrant for his arrest. Police were also investigating how he was able to slip out of the country in a private jet.

Both courses of action, however, remain somewhat academic. Unless Mr Nadir returns voluntarily to the UK, the papers for his prosecution will be put on the shelf to gather dust.

The SFO is left with the problem of deciding whether to go ahead with the prosecution of Mr Nadir's co-defendant, Mr John Turner, Polly Peck's chief accountant. He faces two charges of false accounting which he denies. He could stand trial on his own in September. Yesterday, the SFO said only that it was too early to consider its position on Mr Turner's case.

Mr Nadir was first arrested at Heathrow Airport in December 1990 on his return from a trip to Turkey. He was initially charged with 18 counts of theft and false accounting involving £25m. As the investigation proceeded, the charges mounted until he faced 66 charges involving almost £120m.

However, in June 1992, Mr Justice Tucker, the trial judge, ordered the dismissal of 46 of the charges, These referred to money transfers from Polly Peck to Unipac, a subsidiary.

The charges were later trimmed down again to the current 13 which formed the final indictment on which he would be tried. Mr Nadir always protested his innocence and maintained that proof of this could be found in northern Cyprus. The fact that the SFO had never considered it necessary to visit that country angered him deeply.

Local hero in a pariah state

By Edward Mortimer

THE WARM welcome accorded Mr Asil Nadir on arrival in his native Cyprus should cause no surprise.

He was, until his arrest two years ago, the most successful Turkish Cypriot outside the island and the main private backer of the ruling party in the Turkish-controlled north.

This fact might be thought embarrassing now that he is a fugitive, but most Turks, and especially most Turkish Cypriots, are more than willing to give him the benefit of the doubt, assuming him to be the victim of British prejudice and Greek machinations.

To Mr Rauf Denktash, president of the self-proclaimed Turkish Republic of Northern Cyprus, Mr Nadir's arrival may even seem like a diplomatic windfall. He may feel inclined to tell the British authorities that, while he would love to help, the fact that Britain does not recognise his republic makes matters extraordinarily difficult.

Britain recognises Mr Denktash as leader of the Turkish Cypriot community, and indeed as vice-president of the Cyprus Republic (a title he no longer uses). But, along with the rest of the international community – with the important exception of Turkey – it recognises only one state and one government in Cyprus, the one elected by the Greek Cypriot majority and now headed by President Glafkos Clerides.

The Turks have argued ever since 1963, when the late President Makarios unilaterally amended the constitution in order to override their veto, that the government is no longer legitimate and represents the Greek population only. In 1974 Turkey intervened in response to a coup against Archbishop Makarios by mainland Greek officers, seizing the northern two fifths of the island and regrouping the Turkish Cypriot population there, while the Greek inhabitants fled to the south. The de facto partition has remained ever since, with a UN force policing the line between the two zones.

Mr Denktash, always heavily dependent on mainland Turkish support, proclaimed the TRNC at a moment of flux in Turkish politics in November 1983, when President Turgut Ozal had just won his first general election and was about to become prime minister. Mr Nadir later became a close ally of Mr Ozal, backing him through the newspapers he owned (when other Turkish papers were almost unanimously hostile) and lending money to his son.

It was widely assumed that Mr Ozal returned the favour by pledging continued support for Mr Denktash. But the Turkish foreign ministry regarded Mr Ozal as dangerously soft on the Cyprus issue, especially in 1988 when he appeared close to doing a deal with Mr Andreas Papandreou, the then Greek prime minister. More recently, since Mr Nadir's fall, Mr Ozal broke a taboo by referring publicly to the cost of supporting northern Cyprus for the Turkish exchequer.

For his part, Mr Süleyman Demirel, the present Turkish prime minister and now the leading candidate to replace the late Mr Ozal, has rebuked Mr Denktash for claiming that a quarrel with his prime minister, Mr Dervish Eroğlu, prevented him from negotiating a solution with the Greek Cypriots. Mr Demirel even pointed out that the total population of northern Cyprus is less than that of a small provincial town in mainland Turkey.

Only this week, however, Mr Denktash, who had threatened to resign as negotiator unless the Turkish-Cypriot parliament reaffirmed its faith in him, obtained a parliamentary resolution in support of the UN-sponsored peace talks and himself as negotiator.

Clever as a fox, but will he become a bird in a gilded cage?

By Gill Fraser in Cyprus and Gillian Tett and Andrew Jack in London

"NO WORDS can express the happiness I feel coming back to my people," Mr Asil Nadir cheerfully told Turkish journalists yesterday as he emerged from his hideaway in northern Cyprus. But although his flight has now put him outside the reach of British law, it is a homecoming that could turn bittersweet.

His first day on his native island for two years was spent in the bosom of his family. His mother, Mrs Safiye Nadir, and sister, Mrs Bilge Nevzat, arrived early in the afternoon at Mr Nadir's luxuriously furnished home in the mountains beyond the coastal resort of Kyrenia.

Well-wishers arrived in a constant stream. They were vetted by a chauffeur before being led inside through the heavy wooden front doors.

Journalists from two Turkish mainland dailies and Turkey's broadcasting corporation were ushered into the house for a brief meeting but afterwards said only that they had promised Mr Nadir their conversation was "off the record". Later, Mrs Nevzat peered, broadly smiling, around the half-open door and said her brother would be willing to speak to the press only "in a few day's time". Mr Nadir's return was the talk of north Cyprus and the focus of enormous interest among his neighbours.

One shop-owner said one of Mr Nadir's workers had been airing the empty house for a few days and had called that morning to fetch shopping. "It looks as if they were going to have a celebration", he commented. Cans of soft drinks, red and white wine, vodka and whisky were among the goodies stowed in the boot of a black Mercedes parked outside the house.

Villagers said they were shocked, surprised and happy to see Mr Nadir. "Asil is a fox... he has used his brain", said one elderly man.

Unlike some other fugitives from criminal charges in Britain, Mr Nadir enjoys the advantage is that he is now on home soil – reportedly with three houses on the island and the apparent tacit support of the local government. If he intends to stay there permanently, as his Turkish Cypriot neighbours believed yesterday, Mr Nadir's life seems likely to be luxurious, albeit somewhat downbeat. It will be nevertheless something of a comedown from the opulence he had been used to in London. Mr Nadir's home was in Belgravia, owned by the Grosvenor Estate, which had been seeking to evict him for some months.

Mr Neil Cooper, his trustee in bankruptcy, said yesterday: "Mr Nadir lived in a certain opulent lifestyle as befits the chairman of a major public company."

Even after his bankruptcy, Mr Cooper said Mr Nadir had often been able to find money, explaining that his expenses were being paid by "various friends and associates prepared to support him".

Mr Cooper's efforts to trace personal assets – with which Mr Nadir did not always fully co-operate – give some insight into this lifestyle. He has tracked down one of three expensive oil paintings owned by Mr Nadir, called Sybil and estimated to be worth £250,000.

Two others – Sisters, also worth £250,000, and La Nuit à Bruges, worth about £400,000 – are still unaccounted for. "We speculate that they may have gone abroad," he said.

Mr Cooper said there were also numerous antiques, valuable artefacts, properties and investments overseas held by Mr Nadir which he had been unable to recover.

He said there were about 20 trusts and companies in offshore centres including the Isle of Man and Liechtenstein in which Mr Nadir had interests. "He more or less ignored the bankruptcy," Mr Cooper said. Letters sometimes went unanswered and information which had been requested was not provided. "His memory was obviously not what it used to be."

So far Mr Cooper has managed to realise less than £100,000 in assets.

Klöckner-Werke wins EC reprieve

By Andrew Hill in Brussels and Ariane Genillard in Bonn

KLOCKNER-WERKE, the German steel and engineering group, yesterday won a reprieve from outright bankruptcy when the European Commission decided not to demand immediate full repayment of its DM175m ($111.4m) loan to the group.

But the company must still satisfy the commission that planned capacity cuts and restructuring will not distort overall EC plans to support the European steel industry.

Klöckner said yesterday the way was now open for its debt relief scheme to go through. It said all main creditors had endorsed its debt rescheduling deal under which DM1.4bn of the groups's DM2.7bn net debt would be written off. "The last hurdle is removed," a spokesman added.

But a senior commission official said: "That is wrong. Today we said 'Yes, but' and we are waiting for the answer to our 'but'."

In Duisburg, the local court yesterday gave a green light to the company's plan by formally opening the "composition" procedure. The procedure, a legal step which falls short of bankruptcy proceedings, allows Klöckner to write off over 50 per cent of its debt once all creditors have accepted it.

Creditors are due to meet on June 7 to review the plan, the company said. Klöckner's largest creditors are Deutsche Bank, Dresdner Bank and Westdeutsche Landesbank, the state bank for North-Rhine Westphalia.

Brussels, which does not want to encourage debt write-offs at other ailing European steel manufacturers, is seeking rapid clarification of the cuts involved in Klöckner's restructuring. Klöckner itself believes the commission will be satisfied with its plans to reduce crude steel production by 20 per cent this year with a blast furnace in Bremen set for closure.

Further cuts are also planned for the lossmaking Edelstahl, Klöckner's special steels division. The company is to be sold for a symbolic DM2 to Mr Jürgen Grossmann, chairman of the subsidiary until February 15. Drüker, a Frankfurt-based consultancy company, will acquire 25 per cent of the shares.

French chemicals group may sell stake

By Alice Rawsthorn in Paris

RHONE-POULENC, the French chemicals company, is considering a public sale of its 35 per cent stake in Roussel-UCLAF, the pharmaceuticals group, on the stock market.

The sale of the Roussel stake, which would be worth FFr1.02bn ($188m) on yesterday's share price of FFr548, is one of a number of options being considered by Rhône in conjunction with Hoechst, the German chemicals group that controls Roussel with a 54.5 per cent holding.

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Meanwhile, Roussel announced that it planned to extend the mandate of its managing board chaired by Mr Edouard Sakiz until the end of the year to stabilise the company during the discussions over the future of the Rhône stake. Mr Sakiz, 67, had been due to retire at the end of next month.

Roussel is a specialised pharmaceuticals company best known for its controversial abortion pill. It saw net profits rise by 72 per cent to FFr1.03bn last year from FFr598m in 1991 on consolidated sales of FFr14.5bn.

The fate of the Rhône stake should be decided by the end of this year. Rhône which is 43 per cent owned by the French government, was given the shares by the state in 1990 as part of a general reshuffling of public sector chemical and pharmaceutical interests.

Under the terms of the government's agreement signed in June 1987, the Roussel stake was to be held for six years until June 1993 when its ownership would be subject to renegotiation.

Rhône is subject to the same terms, but it has secured Hoechst's consent to extend the current agreement until the end of the year.

BAT pre-tax profits rise 40% to £360m in first term

By Andrew Bolger in London

BAT Industries, the UK-based tobacco and financial services group, increased pre-tax profits by 40 per cent in the first quarter, but gave warning that the recent US cigarette price war would have an impact on its business.

BAT's pre-tax profits rose to £360m ($554m) from £258m in the three months to March 31, the period just before Philip Morris, the US tobacco group, slashed its prices. Strong insurance premium growth and recovery in financial services profits more than compensated for a slight downturn in tobacco.

The weaker pound lifted the pre-tax profits figure by £46m. Group sales grew by 18 per cent to £6.03bn during the quarter, and earnings per share were 56 per cent higher at 13.7p.

Sir Patrick Sheehy, chairman, said: "The price war is clearly set for a period of significant aggravation, but it remains to be seen how intensive and how persistent our competitors' activity will actually be."

He added: "Shareholders should keep a sense of perspective: US domestic tobacco profit accounted for about 20 per cent of the group's total trading profit in 1992, down from about 30 per cent in 1991. This trend illustrates the reduced importance of the US domestic market to the group as a whole."

BAT's shares yesterday closed 24p lower at 850p. They have fallen by about 15 per cent since Philip Morris's price cut announcement at the beginning of April.

The group said tobacco trading profit of £220m was slightly below last year's strong first quarter, influenced by a number of short-term factors, which cut volumes.

Financial services increased trading profits from continuing operations by 48 per cent, to £169m. Farmers, the US insurance subsidiary, continued to progress and the recovery at Eagle Star contributed to a profit of £93m compared with £43m. In the life business, Allied Dunbar, Eagle Star and Farmers all recorded good premium growth and profits were 7 per cent higher at £76m.

Ascom blames lack of control for deficit

By Ian Rodger in Zurich

ASCOM, the Swiss telecommunications equipment group, blamed inadequate internal controls for the belated discovery last month of SFr61m ($41m) in extraordinary losses at its German subsidiaries.

The discovery forced the group to announce last week that it would suffer a 1992 net loss of SFr46m and pass its dividend rather than achieve the roughly SFr25m net profit forecast a few days earlier in a letter to shareholders.

Mr Leonardo Vannotti, president, accepted the full blame for the debacle, which has caused Ascom shares to lose about 14 per cent of their value.

However, he said at the group's annual press conference yesterday that no member of group management would be resigning.

The losses arose in the group's cable television and mobile radio subsidiaries in Germany. Its cable franchises, purchased only three years ago, have required heavy investment in infrastructure, but so far have attracted few subscribers. The mobile radio business was left with large stocks of technologically outdated products.

In both cases, internal reporting procedures were inadequate and it was only after line managers were replaced in March that the need for large write-offs was discovered by external auditors.

Mr Vannotti said group management had been working hard on improving internal controls at Ascom but it was difficult to find the right people for these positions.

The group, the product of a 1987 merger of three traditional protected suppliers to the Swiss PTT, had not needed strong controls in the past.

Both Mr Vannotti and the board believed that the group's new strategy to expand in specialised global niches was still the right one and they were confident that the recent reporting failure would not recur. It was also clear that group managers had not deliberately misled investors.

Therefore, there was no point in any of them resigning.

Mr Vannotti said he expected the group to return to profit this year.

Stora sees little improvement

By Christopher Brown-Humes in Stockholm

STORA, Europe's leading pulp and paper group, yesterday reported a SKr76m ($10.5m) loss after financial items for the first quarter as it warned that market conditions were unlikely to improve significantly before 1994.

The result compared with a SKr49m profit in the same 1992 period, but represented a sharp improvement on the SKr926m deficit which the group recorded in the final quarter of last year.

The group expected average prices in local currencies to be lower in 1993 than in 1992, with volume growth held to below 1 per cent by the economic downturn in Europe.

It noted that prices for many of its main products appeared to have stopped falling, and said cost-cutting measures and the weakening of the krona would have a positive impact on its result.

Mr Lars-Ake Helgesson, president, said: "We do not expect any substantial help from the market in 1993. But maybe there is the start of a change in the market which will benefit us in 1994."

The group said it saved SKr850m through rationalisation, but this was largely offset by the impact of falling prices, which cost SKr825m.

Group sales rose to SKr12.95bn from SKr12.45bn. The group's biggest unit, Stora Feldmühle, returned a SKr47m operating profit, after a SKr65m loss in the first quarter of 1992, as sales rose to SKr3.86bn from SKr3.28bn.

SBC intervenes with late offer on BAT

By Andrew Bolger

SWISS Bank Corporation has intervened late in BAT's enhanced scrip dividend scheme, offering shareholders a higher cash alternative than BZW.

Under BZW's scheme, BAT shareholders were offered a scrip dividend of 33.9p per share, a 50 per cent premium to the cash dividend of 22.6p announced on March 10.

BZW said shareholders wanting cash could take a cash alternative to the enhanced scrip of 32.5p, free of dealing costs – a 5 per cent discount to cover the joint broker's risk in underwriting the deal.

Now SBC has said it will offer shareholders a cash alternative of 33.22p per scrip share, free of dealing costs – a discount of only 2 per cent.

BAT said it was "strictly neutral", adding its only concern would be if "confusion arose so late in the timetable."

BAT shareholders must communicate a decision on the scrip by Tuesday. Last night, about 38 per cent of the group's 150,000 shareholders had made irrevocable elections.

BZW claimed SBC's late entry and limited method of advertising it – through an advertisement in today's Financial Times – suggested SBC was interested in "creaming off" institutional investors, a charge denied by SBC.

Direct Line plans to seek banking licence

By Richard Lapper and John Gapper in London

DIRECT LINE, the rapidly-growing UK telephone insurance company owned by the Royal Bank of Scotland, may apply for a full banking licence so that it can provide a broad range of financial services, including savings accounts.

The plan was disclosed yesterday as Direct Line reported a threefold increase in pre-tax profits to £15m ($23.2m) in the six months to March 31. It helped raise Royal Bank's pre-tax profits to £91.6m in the first half of its financial year.

Direct Line, which is poised to become the UK's biggest motor insurer, is also preparing an assault on the home insurance market in the autumn and hopes to launch a telephone-based loans operation in September.

The group is planning to sell mortgages, life insurance and deposit accounts. In order for Direct Line to offer savings accounts, the Bank of England would have to grant the subsidiary a banking licence.

Mr Peter Wood, Direct Line's chief executive, said the company was in the process of developing financial products "that offer the Direct Line brand values". He said that in the longer term, it could even diversify into travel agency.

Royal Bank of Scotland, Page 21

Royal Insurance to raise £404m

By Richard Lapper in London

ROYAL Insurance yesterday surprised the markets with a deeply discounted one-for-three £404m rights issue which should enable it to take advantage of recent rises in insurance rates both in the UK and overseas.

News that the group returned to the black in the first quarter, however, helped to calm unease among investors, with the share price falling only 9p yesterday to close at 307p, compared to the rights issue price of 255p.

Pre-tax profits in the first quarter of 1993 amounted to £2m compared with a £48m loss during the same period last year. Royal lost £979m between 1990 and 1992.

"We felt the time was right to take advantage of the market upturn," said Mr Richard Gamble, chief executive. "We have trimmed back sufficiently and want to maintain the market share that we have. We are not looking to make any rapid expansion but the capital will support the whole base of our business."

The issue has been underwritten by Lazard Brothers and Barings. Brokers to the issue are S.G. Warburg Securities and Hoare Govett Corporate Finance. The proceeds will be invested directly in Royal's general insurance business, increasing its solvency by 11 per cent to about 54 per cent.

Although several insurers have raised cash through subordinated bond and debt issues, Royal is only the second composite insurer to ask its shareholders for fresh capital. Commercial Union raised £428m in February.

Lex, Page 14

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on [illegible]: Pool purchase price £/MWh	Final Prices for Trading on [illegible]: Pool purchase price £/MWh	Pool selling price £/MWh
0030	28.86	18.04	18.04
0100	18.54	18.02	18.02
0130	23.86	18.12	18.12
0200	23.47	29.76	39.07
0230	23.47	34.43	37.89
0300	19.50	34.43	37.79
0330	19.00	29.76	32.91
0400	18.67	23.01	28.90
0430	18.67	18.14	18.14
0500	18.54	18.12	18.12
0530	18.54	18.14	18.14
0600	18.61	18.14	18.14
0630	18.82	18.14	18.14
0700	25.34	28.86	28.81
0730	26.87	25.16	28.21
0800	25.37	25.27	28.29
0830	26.93	28.06	29.08
0900	28.14	29.20	32.32
0930	28.18	29.20	32.31
1000	28.18	29.20	32.32
1030	28.18	26.05	29.08
1100	28.18	26.06	29.08
1130	28.18	26.06	29.08
1200	28.18	26.05	29.08
1230	28.17	26.05	29.08
1300	27.30	26.05	29.05
1330	27.28	26.01	29.00
1400	35.02	26.01	29.01
1430	35.01	25.16	28.15
1500	36.01	25.16	28.13
1530	35.01	25.16	28.14
1600	35.02	25.16	28.14
1630	35.03	24.88	27.85
1700	35.03	24.88	27.85
1730	35.02	24.88	27.05
1800	25.36	24.88	27.86
1830	25.34	24.88	27.86
1900	25.20	23.90	26.95
1930	25.20	18.16	18.16
2000	18.07	18.16	18.16
2030	19.00	23.90	26.95
2100	25.20	27.90	30.97
2130	37.10	27.90	30.97
2200	37.10	24.24	27.22
2230	25.06	23.89	26.86
2300	24.50	23.89	27.01
2330	24.48	18.61	18.61
2400	24.28	18.08	18.08

[illegible]

Canadian Pacific returns to profit in first quarter

By Robert Gibbens in Montreal

CANADIAN Pacific, the transport, resource and property group, returned to profitability in the first quarter with the help of special gains.

But Mr William Stinson, chairman, told the annual meeting the results were "disappointing", despite two years of radical restructuring of the company.

"However, the improvement in our share price to around C$21 from a 52-week low of C$13½ reflects the group's future potential. I am very optimistic as we come out of the long recession," he said

He added that CP was *improving its competitive position* in all subsidiaries. The company had a good cash position, although consolidated debt was still too high.

Improving operating results through the year, increasing cash-flow and the impact of the sale of non-core assets would strengthen the balance sheet significantly.

Final first-quarter profit was C$21.7m (US$17.1m), or 7 cents a share, against a loss of C$39.7m, or 12 cents, a year earlier.

Total revenues were C$1.9bn, down from C$2.4bn, reflecting de-consolidation of interests in Unitel, the telecommunications group, and in United Dominion, its industrial products associate.

Transportation, including the railway, contributed lower income, but 87 per cent owned PanCanadian, the oil and gas arm, reported operating income double that of the 1992 period.

Property and hotels gained slightly and forest products narrowed losses.

On an operating basis, Canadian Pacific reported overall income of C$94.1m, against C$61.4m.

Mr Stinson said lower coal, wheat, sulphur and car traffic more than offset gains in potash, wood products and steel as well as inter-modal traffic.

● George Weston, the Canadian foods group, said that while earnings from the last few quarters had been disappointing, it saw a substantial improvement in sales and earnings for the remainder of 1993, Reuter reports from Toronto.

George Weston reported net earnings of C$11.1m, orC$0.24 per share, in the first quarter of 1993, compared with C$6.1m, or C$0.09.

BSN adds to American interests

By Alice Rawsthorn in Paris

BSN, the French food group, is expanding its North American interests by buying Aliments Delisle, a privately-owned Canadian dairy products company.

The deal, for an undisclosed sum, turns BSN into the largest player in the Canadian yoghurt market. Aliments Delisle, which made sales of FFr300m ($58.6m) last year, makes cheese, cream and yoghurt under the Silhouette and Delisle brand names.

BSN, a force in the European food industry which last year played a pivotal part in the bitter takeover battle for Perrier mineral water, is already present in the North American yoghurt market through the Dannon brand in the US and the Danone label in Mexico.

Fresh food, including dairy products, was one of BSN's strongest areas of activity last year. The group saw overall net profits before exceptional items rise by 5.6 per cent from FFr3.44bn in 1991 to FFr3.64bn in 1992 on sales of FFr70.54bn.

● Générale des Eaux, the French utilities group, may expand in Portugal by investing in the water, telecommunications and transport industries after privatisation, Mr Paul-Louis Girardot, chief executive, said in Lisbon yesterday.

SEC seeks comment on capital rules

By Martin Dickson

THE US Securities and Exchange Commission has voted to ask for public comment on whether it should broaden the capital requirements for securities firms to include their exposure to derivative securities.

The move is the latest expression of concern by US and international regulators about the fast-growing, extremely profitable and largely unregulated market for derivative instruments such as forwards and swaps.

Only last week, the Basle Committee on Banking Supervision proposed new minimum capital levels for banks which trade equities, debt, foreign exchange and derivatives.

The SEC is at this stage only seeking comment on ways in which it could change its capital rules to encompass derivatives, but any eventual action could have serious repercussions for the market.

The SEC only gained the power to oversee the derivates business last year when, following the 1990 collapse of securities house Drexel Burnham Lambert, it won the right examine the affiliates of securities houses dealing in the instruments.

BT talks on share stake in EDS are called off

By Martin Dickson in New York

BRITISH Telecom and Electronic Data Systems, America's largest computing services company, are understood to have called off discussions which could have meant BT buying a large stake in EDS, a subsidiary of General Motors.

The two companies declined to comment but they are believed to have been unable to agree on the financial terms of a deal, and particularly on the degree of control to be wielded by BT.

The British company does not want to take stakes in businesses where it does not have control, while neither GM nor EDS appear to have been happy to yield much power to BT.

The discussions are said to have included the possibility of BT purchasing a 25 per cent stake in GM's class E shares, which are linked to the profitability of EDS. This would have cost BT around $4bn at current market prices.

However, the class E shares do not give the holder a stake in EDS's assets, which remain 100 per cent owned by GM, and this appears to have been a significant stumbling block to any deal.

The termination of talks poses a substantial strategic challenge for BT, which is anxious to expand its presence in the North American telecoms market, the world's largest, to support its drive to be a leading global business.

It has a fledgling network management business, called Syncordia, based in Atlanta, Georgia, but a tie-up with EDS would have given it much more clout in the US market and potential access to customers.

EDS, for its part, could have bolstered its European presence through a link with BT.

The Dallas-based company, which operates in more than 30 countries, sees Europe as a key area of growth over the *coming decade. Some 25 per* cent of its revenues currently come from international markets.

It is keen to strike up alliances with one or more international telecommunications groups to exploit the convergence of the computing and telecommunications sectors in a much larger information technology industry.

Gains expected at Clark Oil

By Robert Gibbens

HORSHAM Corp said yesterday a strengthening US economy would improve margins at its wholly-owned Clark Oil & Refining subsidiary this year. In addition, retail volumes were showing gains monthly.

Horsham, a holding company controlled by Canadian entrepreneur Mr Peter Munk, owns 30 per cent of American Barrick Resources.

First-quarter net profit was US$6.8m, including special items, or 8 cents a share, against $8.2m, or 9 cents, a year earlier. Revenues were $591m, against $502m last time.

Clark Oil, a US refiner and marketer, suffered a small loss, while the contribution from American Barrick doubled to $9m.

Swiss watchmaker SMH to create new share class

By Ian Rodger in Zurich

SMH, the leading Swiss watchmaking group, said it would split its registered shares and convert its participation certificates into a new class of bearer share.

However, it would maintain restrictions on foreign ownership to ensure that the Swiss identity of the group and its products – which include such famous brands as Swatch, Omega, Longines, Tissot and Rado – would be preserved.

The group plans to split each SFr100 registered share into five SFr10 registered shares plus one new SFr50 bearer share.

Each SFr20 registered share will be split into two SFr10 registered shares. Each SFr100 participation certificate will be converted into two SFr50 bearer shares.

The new bearer and registered shares would each have one vote per share. The pool of Swiss shareholders led by Mr Nicolas Hayek, which has 52 per cent of the votes, will probably see their voting power decline fractionally.

Mr Hayek said the proportion of foreign ownership of the group was probably over 40 per cent. But the by-laws provide that foreigners as a group can vote only 30 per cent of the registered shares and, as individuals, can only vote 3 per cent.

● Motor-Columbus, the electrical technology group controlled by Union Bank of Switzerland, plunged into a loss of SFr182m last year, compared with a profit of SFr65m in 1991, and the directors proposed passing the dividend.

Purcell responsible for GM strategy

GENERAL Motors has named Mr Robert Purcell executive in charge of corporate strategy, responsible for development of the carmaker's intergrated strategic plan, Reuter reports from Detroit.

Mr Purcell, 40, will report to GM's President Council, a group of five top executives responsible for decisions about products and planning.

ITT to sell consumer loan portfolio

By Martin Dickson in New York

ITT, the US conglomerate, yesterday speeded up the reorientation of its troubled Consumer Financial Corporation subsidiary by announcing plans to sell a poorly-performing loan portfolio. It intends selling its domestic unsecured consumer small loan portfolio to an investment group.

The investment group is led by an affiliate of Goldman, Sachs, the New York investment bank, and includes ITT, with a 15 per cent equity holding, and Household International, the credit servicing company, with a 25 per cent stake. Household will service the loan portfolio.

The portfolio had an end-February face value of $2.18bn. ITT, which expects to report a small gain on the sale in the second quarter, will receive around $1.7bn in cash, including $400m of loan payment collections between the end of February and the June 1 completion of the deal.

The deal follows ITT's announcement last January that it was changing the focus of the consumer finance business, away from the domestic unsecured area, which has been hit by the growing popularity of credit cards and the increasing willingness of Americans to file for personal bankruptcy.

The unit plans to focus on secured lending, particularly in the mortgage field.

At the time of the January announcement, ITT established reserves of $796m to cover losses from the run-off of the unsecured portfolio and office closures.

The portfolio was written down to 65 cents on the dollar, but yesterday's agreement puts a price on it of just over 79 cents.

Mr Rand Araskog, ITT's chairman, said the transaction "maximises the shareholder value of the loan portfolio through sale rather than liquidation." Shares in ITT rose on the New York Stock Exchange following the announcement of the deal to stand at $82¼, up $1⅜, before the close.

Safeway in $1.7m loss for quarter

By Nikki Tait in New York

SAFEWAY, one of the largest US food retailers with more than 1,100 stores in the US and Canada, yesterday reported a $1.7m loss after tax in the three months to March 27, compared with a $22.9m surplus, before extraordinary items, in the same period of 1992.

Sales during the period edged ahead from $3.39bn to $3.4bn.

Operating profits fell from $102.4m to $42.3m, while interest expenses decreased from $70.3m to $63.2m. Safeway was subject to a $4.2bn leveraged buy-out in 1986, and remains fairly heavily indebted.

The California-based company blamed the loss on its problems in Alberta. Low-cost competitors have undermined Safeway's position there, and the US company has negotiated a new contract with local employees which rolls back wages and provides a voluntary buy-out programme.

Safeway said yesterday that the number of employees accepting the buy-out by April 30 "far exceeded expectations".

However, the first quarter figures included a $27.5m charge, after tax, to cover the buy-out programme. The company also cut prices sharply in Alberta – a move which boosted first-quarter sales but hit operating margins.

MCI wins $80m J.P. Morgan deal

By Martin Dickson

MCI Communications, the second-largest US long-distance telecommunications group, has beaten AT&T, of the US, and BT, of the UK, to win an $80m five-year contract to operate one of the global communications networks of J.P. Morgan, the New York banking group.

The deal with one of the world's most blue-chip banking groups is a significant coup for MCI, which, like other leading telecommunications groups, is keen to build a presence in the expanding global "outsourcing" market – the trend for multinational companies to contract their global communications needs to an industry expert.

MCI will team up with Infonet Services, which is jointly owned by some of the world's leading telecommunications companies. MCI will provide integrated voice and data network services to more than 20 Morgan centres in North America, Europe, Asia and Latin America.

The deal is a blow to BT's fledgling Syncordia unit, based in Atlanta, Georgia, which was set up to capitalise on multinational outsourcing, but has found it hard to gather rapid momentum.

Both BT and AT&T, the leading US long-distance company, were awarded contracts with J.P. Morgan last year covering other aspects of global communications, but these were far smaller than the MCI contract.

Intel shares rise sharply on IBM link-up reports

By Louise Kehoe in San Francisco

INTEL shares have risen sharply this week amid reports that the semiconductor manufacturer was in talks with International Business Machines about a possible manufacturing alliance.

Intel, the leading manufacturer of microprocessor chips used in personal computers, is unable to fulfil strong demand for its latest products. IBM, in contrast, has excess production capacity.

Wall Street analysts speculated that the companies might come to an arrangement that would solve both of their problems. IBM is Intel's largest customer, and a long-time ally.

IBM already manufacturers, under licence, Intel-designed microprocessors. However, the current terms of that licensing arrangement limit IBM's production to chips for use in its own products, or for sale in "sub-systems", such as computer circuit boards.

One possibility is that the licensing arrangement could be modified to enable IBM to manufacture microprocessors for sale to third parties.

Analysts also suggested, however, that Intel might acquire a share of IBM's semiconductor production facility in East Fishkill, New York.

A spokesman for Intel said the company had frequent discussions with IBM, but would not disclose the nature of those talks. IBM also declined comment.

Intel's stock gained $4⅝ on Tuesday and was up $⅞ yesterday in early trade to $102⅝.

Marion Merrell Dow plans cuts

MARION Merrell Dow, the US pharmaceuticals company 70 per cent owned by Dow Chemical, plans to cut US staffing levels and reduce costs, writes Our New York Staff.

The company, which last month reported sharply lower sales and earnings for the first quarter of 1993, also plans to accelerate projects it believes will help sales in the near term.

Mr Fred Lyons, president and chief executive officer, said the company was facing very tough business conditions.

"While our vision remains focused on long-term growth, we clearly need to realign our organisation to reflect current business conditions, he said.

"With sales and earnings for 1993 running well below 1992 levels, we cannot take a 'business-as-usual' approach."

EDUCATIONAL

CONTRACTS & TENDERS

PETRÓLEO BRASILEIRO S.A. - PETROBRÁS INTERNATIONAL COMPETITIVE BIDDING

CHANGE NOTICE OF BIDDING NOTICE No 849-003/92

SCOPE: Purchase of centrifugal pumps for the construction, in Brazil, of the Paraná-Santa Catarina and Reconcavo-South of Bahia Pipelines.

CHANGE IN THE DEADLINE FOR SUBMISSION OF BIDS:

PETROBRÁS informs that the deadline for submission of Bids has been postponed to May 31, 1993 and that the address, time and procedures established in the Bidding documents will remain unaltered.

LEGAL NOTICES

WINE & LEISURE LIMITED (JOINT ADMINISTRATIVE RECEIVERS APPOINTED)

REGISTERED IN ENGLAND
COMPANY NUMBER 1855210

NOTICE IS HEREBY GIVEN, pursuant to Section 48(2) of the Insolvency Act 1986, that a meeting of the unsecured creditors of the above named company will be held at 43 Temple Row, Birmingham on Monday 17 May 1993 at 2.30 pm for the purpose of having laid before it a copy of the report prepared by the administrative receivers under Section 48 of the said Act. The meeting may, if it thinks fit, establish a committee to exercise the functions conferred on creditors' committees by or under the Act.

Creditors whose claims are wholly secured are not entitled to attend or be represented at the meeting. Other creditors are only entitled to vote if:

(a) they have delivered to us at 43 Temple Row, Birmingham B2 5JT, no later than noon on 14 May 1993, written details of the debts they claim to be due to them from the company, and the claim has been duly admitted under the provisions of Rule 3.11 of the Insolvency Rules 1986; and

(b) there has been lodged with us any proxy which the creditor intends to be used on his or her behalf.

Please note that the original proxy signed by or on behalf of the creditors must be lodged at the address mentioned; photocopies (including faxed copies) are not acceptable.

Signed John F Powell and Ian N Carruthers
Joint Administrative Receivers
Date: 30 April 1993

City and Commercial Investment Trust plc (In Members Voluntary Liquidation) Company Number 350613

NOTICE IS HEREBY GIVEN, that the Joint Liquidators of the above company intend to make distributions to the creditors, some of whom are members for unclaimed dividends. There are many members and former members of the company who no longer live at the addresses as stated in the Register of Members, and as such the *Liquidators are unable to make dividend* payments to these members. All members who have not received the recent correspondence, since December 1992, from the company are required to submit details of their names, addresses, dates and numbers of shares held, and claims in respect of any past dividends not received, to the Joint Liquidators, Roger Smith and John AG Alexander at KPMG Peat Marwick, PO Box 730, 20 Farringdon Street, London EC4A 4PP on or before 14 June 1993 which is the last day for proving claims.

Note: The company is able to pay all known creditors in full.

Dated: 27 April 1993
R Smith

R.A.G. ELECTRICAL LIMITED (In Administrative Receivership)

NOTICE IS HEREBY GIVEN pursuant to Section 48(2) of the Insolvency Act 1986, that a meeting of the unsecured creditors of the above named company will be held at the offices at Robson Rhodes, 186 City Road, London EC1V 2NU on 21st day of May 1993 at 10.00 am, for the purpose of having laid before it a copy of the report prepared by the administrative receivers under section 48 of the said Act. The meeting may, if it thinks fit, establish a creditors committee to exercise the functions conferred on it, by, or under the Act.

Creditors are only entitled to vote if:

(a) they have delivered to us at the address shown above, no later than 12.00 hours on the business day before the meeting, written details of the debts they claim to be due, and claim has been duly admitted under the provisions of the Insolvency Rules 1986 and

(b) there has been lodged with us any proxy which the creditor intends to use on his behalf.

Dated this 27th day of April 1993.
L JACOB and V M BAIRSTOW
Joint Administrative Receivers

Creditors may obtain a copy of the report, free of charge, on application to the Joint Administrative Receivers at 186 City Road, London EC1V 2NU.

NOTICE to the holders of outstanding U.S. $30,000,000 1¼ per cent. Convertible Bonds Due 2002 of Goldstar Co., Ltd. (the "Bonds" and the "Company" respectively)

NOTICE IS HEREBY GIVEN to the holders of the Bonds that the Company has issued to the holders of its common stock and of its preferred stock and to employees, rights to subscribe for up to 5.7 million shares of common stock of the Company.

Such rights will be issued pursuant to the Company's Board of Directors' resolutions passed on 29th January and 12th April, 1993. A further Notice will be given to the holders of the Bonds of any resulting adjustment to the Conversion Price in relation to the Bonds.

6th May, 1993 — Goldstar Co., Ltd.

CORRECTION NOTICE

COMPAGNIE FINANCIERE DE CREDIT INDUSTRIEL ET COMMERCIAL

USD 200,000,000
Floating rate notes due 1997

Notice is hereby given that contrary to the advice of April 26th, the outstanding bonds on May 17th, 1993 will not be redeemed

The interest payable for the period November 16th, 1992 to May 17th, 1993 against Coupon N° 16 in respect of USD 50,000 nominal of the notes will be USD 1 327,08.

Principal Paying Agent

CREDIT INDUSTRIEL D'ALSACE ET DE LORRAINE
103, Grand-Rue
L - 1661 LUXEMBOURG

Leveraged Capital Holdings

Weekly net asset value on 03.05.93 US$ 57.07

Listed on the Amsterdam Stock Exchange

Information: MeesPierson Capital Management Rokin 55, 1012 KK Amsterdam. Tel. + 31-20-5211410.

ALLIANCE + LEICESTER

Alliance & Leicester Building Society £150,000,000 Floating Rate Notes due 1996

For the three months 30th April, 1993 to 30th July, 1993 the Notes will carry an interest rate of 6⅜% per annum with an interest amount of £77.91 per £5,000 and £1,558.22 per £100,000 Bond, payable on 30th July, 1993.

Listed on the Luxembourg Stock Exchange.

Bankers Trust Company, London — Agent Bank

NOTICE OF ADJOURNED MEETING

NOTICE to the holders of outstanding FF 495,000,000 5% Equity Notes Due 2003 of Yves Saint Laurent S.A.

Principal payable in ordinary shares of Yves Saint Laurent Groupe

Notice is hereby given to the holders (the "Noteholders") of the outstanding FF 495,000,000 5% Equity Notes Due 2003 (the "Notes") of Yves Saint Laurent S.A. (the "Issuer") the principal of which is repayable in certain circumstances in ordinary shares of Yves Saint Laurent Groupe ("YSL") and which are constituted by the Trust Deed as referred to below that the Meeting of Noteholders convened for 29 April 1993 by the notice dated 7 April 1993 published in the Financial Times and the Luxemburger Wort was adjourned for lack of a quorum and that an adjourned Meeting of Noteholders will be held at the offices of Yves Saint Laurent at 7 avenue George V, 75008 Paris on 14 May 1993 at 3.00 p.m. (Paris time) for the purposes of considering and, if thought fit, passing the following Extraordinary Resolution:

Extraordinary Resolution

"That this Meeting of the holders of the outstanding FF 495,000,000 5% Equity Notes Due 2003 (the "Notes") of Yves Saint Laurent S.A. (the "Issuer") the principal of which is repayable in certain circumstances in ordinary shares of Yves Saint Laurent Groupe ("YSL") and which are constituted by the Trust Deed dated 20 November 1987 as amended by a supplemental trust deed dated 14 November 1988 made between the Issuer and The Law Debenture Trust Corporation p.l.c. (the "Trustee") as trustee for the holders of the Notes (the "Noteholders") and by a second supplemental trust deed dated 30 June 1989 made between the Issuer, the Trustee and YSL (together the "Trust Deed") hereby:-

(1) approves (on the terms and subject to the Conditions contained in the Explanatory Memorandum dated 7 April 1993 (the "Explanatory Memorandum"), a copy of which has been signed for identification by the Chairman of the Meeting) the fusion of YSL (together with Berlys Investissements and Yves Saint Laurent Management) with Elf Sanofi;

(2) assents (subject to the conditions contained in the Explanatory Memorandum) to the modification of the Terms and Conditions of the Notes as printed on the reverse of them and in Schedule 1 to the Trust Deed and to the provisions of the Trust Deed, in each case as set out in the draft Third Supplemental Trust Deed produced to this Meeting (a copy of which has been signed for identification by the Chairman of the Meeting);

(3) sanctions every abrogation, modification, compromise or arrangement in respect of the rights of the Noteholders and the holders of the coupons relating to the Notes against the Issuer and YSL involved in or resulting from the modifications referred to in paragraph 2 of this Resolution; and

(4) authorises and directs the Trustee to concur in the modifications referred to in paragraph 2 of this Resolution and, in order to give effect to them, forthwith to execute a Third Supplemental Trust Deed in the form of the said draft produced to this Meeting with such amendments (if any) as the Trustee shall require."

The attention of Noteholders is particularly drawn to the quorum requirements set out in "Voting and Quorum" below.

Copies of the current Trust Deed (including the current Terms and Conditions of the Notes), the Explanatory Memorandum and a draft of the Third Supplemental Trust Deed referred to above are available for inspection at the offices of the Paying Agents specified below.

In accordance with its normal practice, the Trustee expresses no opinion on the merits of the proposed resolutions and modifications but has authorised it to be stated that it has no objection to the Extraordinary Resolution being submitted to the Noteholders for their consideration.

Voting and Quorum

1. The quorum required at the Meeting is two or more persons present in person holding Notes or voting certificates or being proxies and holding or representing in the aggregate not less than one-third in principal amount of the Notes for the time being outstanding (as defined in the Trust Deed).
2. To be passed, the Extraordinary Resolution requires a majority in favour consisting of not less than three-quarters of the votes cast. If passed, the Extraordinary Resolution will be binding on all the Noteholders, whether or not present at such Meeting, and upon all the holders of the coupons appertaining to the Notes.
3. The method of voting or giving voting instructions is contained in the Notice of 7 April 1993 referred to above.

In accordance with the provisions of the Trust Deed, the form of this notice has been approved by the Trustee.

Yves Saint Laurent S.A.
Yves Saint Laurent Groupe — 6 May 1993

Paying Agents

Bankers Trust Company, 1 Appold Street, Broadgate, London EC2A 2HE.
Banque Internationale à Luxembourg S.A., 2 Boulevard Royal, L-2953 Luxembourg.
Crédit Suisse, Paradeplatz 8, CH-8021 Zurich.

The Issuer is a *société anonyme* incorporated under French law on 15 September 1961, expiring, unless extended, on 15 September 2060.
Registered Office: 5, avenue Marceau, 75116 Paris
Share Capital: FF 909,442,700 RCS number: Paris B 322 578 301

YSL is a *société en commandite par actions* incorporated under French law on 23 July 1982 as a *société anonyme*, expiring, unless extended, on 23 July 2081.
Registered Office: 5, avenue Marceau, 75116 Paris
Share Capital: FF 390,407,000 RCS number: Paris B 324 919 059

This notice, for which the Issuer and YSL are responsible, has been approved by Wasserstein Perella & Co. Limited, a member of The Securities and Futures Authority, solely for the purposes of section 57 of the Financial Services Act 1986 of the United Kingdom.

INTERNATIONAL COMPANIES AND FINANCE

KeyCorp laughs all the way to the bank

Martin Dickson reports on the 'bar-bell' expansion which defied conventional wisdom

CRAZY. That was the verdict Wall Street delivered in the mid-1980s on Mr Victor Riley, chief executive of KeyCorp, then a modest-sized bank in up-state New York, when he began snapping up banks in Alaska, Oregon and Washington.

The deals defied conventional wisdom that US banks should acquire others in their own or neighbouring regions.

The pundits said KeyCorp would find it very hard to manage a business with two entirely separate clusters of operation in the extreme north-east of the US and the extreme north-west.

Eight years on, however, it is Mr Riley who is laughing. So, too, may be KeyCorp's long-time British institutional investors who, he says, supported his bold move into the Pacific north-west "when Wall Street was calling us lunatic.

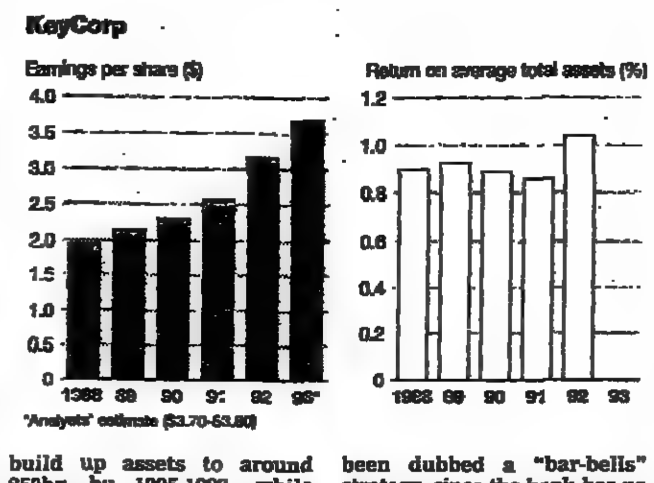
"Many of the Scottish folks told us: 'Right on, you're doing the right thing,'" he recalls with a chuckle.

For a rapid succession of well-priced, strategically bold takeovers has given KeyCorp operations in eight northern states and a reputation as one of the more adept US "super-regional" banks at profiting from the wave of consolidation sweeping through the American industry.

From its base in Albany, New York, it has lifted assets from just $3bn in 1982 to around $32bn – a figure which includes the completion in January of one of its most important acquisitions yet – Washington state's $4.6bn-asset Puget Sound Bancorp.

It recently unveiled plans to build up assets to around $50bn by 1995-1997, while increasing earnings per share 13 per cent a year and improving its return on equity from 16.48 per cent to 17 per cent.

KeyCorp



*Analysts' estimate ($3.70-$3.80)

Details will be spelt out for European investors next week when Mr Riley embarks on an annual tour of the region's financial centres.

A big, broad-shouldered man of 61, with an infectious laugh, he took over as chief executive in 1973, which makes him the longest-serving leader of a leading US bank.

He spends some 50 per cent of his time on the road, visiting branches of KeyCorp's far-flung empire or giving presentations issues in small, rural towns.

His unusual working schedule reflects what makes KeyCorp distinct from its rivals:

● It is the only regional bank with branches on both sides of the US, with roughly 50 per cent of assets in the Pacific north-west and Rocky Mountain states and the remainder in the north-east. This has been dubbed a "bar-bells" strategy, since the bank has no presence in the middle of the country.

● It concentrates on predominantly small town and rural markets, with branches in such obscure corners of the US as Eagle River, Alaska, Big Piney, Wyoming, and Caribou, Maine.

● And it has remained very much a community bank, with lending decisions taken by local officers.

All this helped keep KeyCorp growing strongly in the early 1990s, when many US banks stumbled because of regional recession or serious exposure to a collapsing commercial property market.

Its geographical diversity has been a source of strength, for while the north-eastern economy has been through a severe downturn, the Pacific north-west was – at least until recently – one of the fastest-growing regions of the US.

Banking margins in rural America are high, while KeyCorp's conservative lending practices mean its ratio of non-performing assets to loans and repossessed real estate is a very low 1.30 per cent.

But what can KeyCorp do for an encore – particularly when the interest rate cycle seems to be turning against the banking industry, trimming the easy profits earned by the sector over the past year, and when growth in loan volume is likely to be sluggish?

Its five-year plan has three elements. First, to broaden and improve its banking services, and make their delivery more efficient.

In the past KeyCorp had a relatively high ratio of overheads to revenue – in part because of its geographical spread – but it has driven this down from around 72 per cent five years ago to around 62 per cent, just below its peer group average, and the aim is to cut it to 57 per cent.

Technology will be an important factor here. KeyCorp has recently completed the installation of a sophisticated computer network linking every bank-teller. "We can tell you at the end of every day the loans that have been put out on our system," says Mr Riley.

The bank is now moving into electronic imaging for cheque processing and hopes to sell this service to other businesses which involve a lot of paperwork.

Technology is meant to play an important role in the bank's second objective – to boost its fee-based income from services such as mortgage banking (where it is already a substantial player, with a portfolio of over $20bn), insurance and trust services.

Bank-tellers will be encouraged to cross-sell these other products – and earn commission doing so – by using their computer terminals.

The third objective is to keep up KeyCorp's acquisitions, which Mr Riley thinks could account for about one third of its earnings growth over the next few years.

The emphasis, says Mr Bill Dougherty, the chief financial officer, will be on filling in gaps in the states it serves, together with moves into contiguous ones "provided we can get a major market share."

There are risks, perhaps reflected in the fact that Wall Street has kept KeyCorp's P/E ratio below the best in its peer group.

The economy of the Pacific north-west is slowing as aerospace recession hits Seattle-based Boeing. But KeyCorp argues that Boeing is not the crucial factor in the regional economy it once was, and it points out that states like Utah and Idaho are booming.

Second, the bank could make a poor acquisition – although its shrewd record to date suggests the contrary.

Third, the leadership could change: Mr Dougherty will probably retire in 1994 and Mr Riley could quit the following year, although he will only say: "The day that I'm just not excited getting up and coming in to work is the day I'm going to tell the board I'm ready to retire."

Judging by his busy European schedule, that is still a long way off.

Placer Dome survives bullion fall

By Bernard Simon in Toronto

PLACER DOME, the international gold producer based in Vancouver, has reported unchanged first-quarter earnings, with lower costs and taxes offsetting a 2 per cent fall in output and a 7 per cent drop in the bullion price.

Earnings for both this year and last were US$11m, or 5 cents a share, while revenues fell to $228m from $267m. Tax provisions dropped to $6m from $19m.

Placer's share of gold output from its 14 mines dipped to 450,000 oz from 460,000 oz, due mainly to lower ore grades at the Porgera and Misima mines in Papua New Guinea.

But production at the Campbell mine in Ontario rose to 70,500 oz from 59,500 oz.

Average cash production costs fell to $192 an ounce. Improvements at nine mines were due to higher grades, tighter cost controls and favourable exchange rate movements.

Placer expects output from its Australian and Papua New Guinea operations this year to be about 20 per cent below 1992. Lower grades will continue to hit production at Porgera and Misima. Furthermore, Placer has reduced its stake in Porgera, and last year sold the Big Bell mine in Australia.

The company said it had completed a feasibility study for a 4,600 tons-per-day open pit mine and processing plant to exploit its 60 per cent-owned Pipeline deposit in Nevada.

Recoverable ore reserves are estimated at 35.3m tons with a grade of 0.12 oz of gold per ton. Construction costs are estimated at $250m.

An updated feasibility study on development of the 50 per cent-owned Zaldivar copper deposit in Chile is due to be completed in July.

Diesel unit helps Metra recovery

By Christopher Brown-Humes in Stockholm

METRA, the Finnish industrial conglomerate, returned to the black in the year to February, helped by a strong performance from the diesel engine division, restructuring and a weaker markka.

Profit after financial items amounted to FM43m ($7.94m), compared with a FM203m deficit previously. The dividend is being held at FM2 per share.

Sales rose 7 per cent to FM10.5bn, with the biggest improvement coming from Wärtsilä Diesel, where sales grew to FM5.1bn from FM3.3bn.

The group has benefited from a strong increase in power plant sales, and in particular from the popularity of plants with a multi-fuel burning capability. It is the world's leading supplier of diesel power plants of more than 1Mw, with a 20 per cent market share, but it has also maintained a strong presence in the marine engine market despite a lower level of world shipbuilding orders.

Wärtsilä Diesel lifted operating profits to FM235m from FM177m, as the unit's order intake climbed to FM3.5bn from FM1.7bn.

Metra said it had benefited from its reduced exposure to the depressed Finnish construction market following last year's disposal of its building materials activities. It retains a small involvement in this sector via associate companies.

A further improvement is expected in the group's performance this year, with sales predicted to reach FM10bn in the months from March to December 1993.

Lion Nathan faces challenge in Australia

By Terry Hall in Wellington

LION Nathan, Australia and New Zealand's biggest brewer, expects satisfactory profits this year but says tougher competition and difficult trading conditions in the Australian beer market will be a challenge.

For the six months to February, group profits rose by 72.8 per cent to NZ$79.5m (US$42.9m) from NZ$46m a year earlier. However, the 1992 result included a six-month contribution from the then 50 per cent owned National Brewing, now fully-owned and known as Lion Nathan Australia.

The company is stepping up its interim dividend by 1 cent a share to 6.5 cents.

Mr Douglas Myers, chief executive, said yesterday the company had lost 3.6 per cent of its key market share in New South Wales on the same period of last year, but increased it in Queensland, South Australia and Victoria.

Over the past 12 months, Lion Nathan's share of the Australian beer market was up 1.7 per cent to 40.7 per cent. "We are ahead of last year but the rate of increase has fallen away," Mr Myers said. Beer market share in New Zealand was 58.2 per cent.

Turnover for the six months rose 136 per cent to NZ$1.3bn. The half-year results include extraordinary losses of NZ$9.4m and a NZ$20m provision for property investment losses. There was a tax credit of NZ$6m, against tax paid last time of NZ$1m.

Mr Myers said the newly-launched Toohey's Blue Label low-alcohol beer had become the top-selling beer in Australia. Lion Nathan International increased exports by 25 per cent with US sales up 37 per cent.

Losses from the soft drinks division were reduced to NZ$6.7m from NZ$7.9m on sales up at NZ$112.6m from NZ$85.3m.

Mr Myers saw the formation of the joint venture with PepsiCo of the US covering both Australia and New Zealand as a "great growth opportunity".

Group trading profit before interest and tax was NZ$197.4m, against NZ$97.6m. Interest costs were NZ$115.6m, up from $50.8m for the first half of last year.

Reliance ahead at Rs32.1bn by year-end

By Shiraz Sidhva in New Delhi

RELIANCE Industries, the Indian chemicals and textiles conglomerate, reported a 96 per cent increase in net profits to Rs32.1bn ($1.03bn) for the year to March 1993.

The company, which last year became the first Indian group to tap the international markets for fresh equity, says sales jumped 39 per cent to Rs41.05bn. Operating profits increased by 53 per cent to Rs88.2bn. Exports increased to Rs16.8bn, up 62 per cent.

Mr Anil Ambani, joint managing director, said Reliance, the fifth-biggest industrial group in India, had achieved the result in a "difficult environment further aggravated by dumping" from foreign chemicals producers who were off-loading their products in India.

● Pennzoil Products of the US and the Bombay-based Petrosil Oil plan to blend, package and market the Pennzoil brand of lubricants in India.

COMPANY NEWS DIGEST

Elf-Sanofi to sell clothing division

ELF-SANOFI, the French pharmaceuticals company, plans to sell the ready-to-wear clothing division of Yves Rocher, one of its brand names, to Tessile Miroglio, the Italian textile group, for an undisclosed sum, writes Alice Rawsthorn in Paris.

The disposal is the latest in a number of deals conducted by Elf-Sanofi, which is controlled by the Elf-Aquitaine oil company, notably its controversial acquisition earlier this year of the Yves Saint-Laurent fashion and cosmetics house.

The Yves Rocher clothing business, which includes the Claverie and Sym labels, will be merged under Miroglio's ownership to create a company with combined sales of about FFr300m ($55.5m).

Miroglio has significant clothing interests in France, including the Caroline Rohmer business which it acquired six years ago, as well as operations in Spain and Germany.

French drug share offer given go-ahead

THE Commission des Opération de Bourse, the French stock market watchdog, has given the go-ahead to the FFr865-a-share offer for Office Commercial Pharmaceutique, the drug wholesaler, from a consortium led by Co-operation Pharmaceutique Française.

The consortium bid has been sanctioned by the Conseil des Bourses de Valuers, another regulator.

Deficit widens at German railways

DEUTSCHE Bundesbahn, Germany's state-owned national railways, reports net losses for 1992 of DM14.8bn ($9.25bn), or 54 per cent more than for the previous year, writes Judy Dempsey in Berlin.

Turnover for this first quarter of the current year totalled DM6.1bn, or 1.3 per cent lower than the same period last year. Goods transport sales fell by 14 per cent to DM2.5bn.

Mr Heinz Dürr, railways director, said net losses for the Bundesbahn, the western German railways, totalled DM8.6bn, an increase of 62 per cent on 1991. Losses for the Reichsbahn, the eastern German network exceeded DM6.2bn, a 44 per cent increase on 1991. Mr Dürr said the losses underscored the need to introduce a comprehensive reform of railway network.

Bank of Muscat falls 3.7% to $2.61m

THE Bank of Muscat, which is about to complete a merger with Al Bank Al Ahli Al Omani, reports a decline of 3.7 per cent in net profit to $2.61m for 1992, AP-DJ reports.

The bank's operating profit rose strongly to $7.85m, up 38 per cent, but the bank increased bad-debt provisions by 77 per cent to $5.24m.

Hewlett-Packard introduces new 'palmtop' PC

By Louise Kehoe in San Francisco

HEWLETT-Packard has introduced a pocket-sized personal computer that can send and receive electronic messages as well as run standard PC programs.

It is one of the first products to reach the market in what is expected to become a fast-expanding market for "personal communicators".

The 100LX is H-P's second "palmtop" computer. It has already sold "well over 200,000" of the earlier version, introduced two years ago, which does not have the built-in communications capabilities of the new model.

H-P has taken an early lead in a field that is expected to expand rapidly with the entrance of competitors such as Apple Computer, with its much heralded "Newton", as well as AT&T, IBM and Compaq Computer.

The 11-ounce 100LX "palmtop" PC is designed for executives who use electronic mail to keep in touch with their offices and to access information on office computers. The US list price will be $749.

Software built into the 100LX includes a version of Lotus Development's popular electronic mail program.

INTERNATIONAL CAPITAL MARKETS

Yield gap narrows between French and German paper

By Jane Fuller in London and Patrick Harverson in New York

THE YIELD gap between the French and German government bonds broke through the 40 basis points barrier yesterday, with the market believing that a further cut in French interest rates was imminent.

The spread between the 8.50 per cent OAT due 2003 and the 7.125 per cent bund due 2002 at one stage narrowed to 38 basis points and was still at 39 basis points late in the afternoon. This compares with 71 basis points just before the French general election on March 21.

GOVERNMENT BONDS

Explanations include the view that France, against the background of a strong currency, has further scope to cut interest rates independently of Germany. Another ¼ point fall in the intervention rate would bring it down to 8 per cent, still a little above German levels.

With France described as "flavour of the month", some economists believe the yield spread could narrow to 20 basis points.

■ THE Bundesbank's auction of DM4.53bn of 6⅞ per cent 10-year government bonds was more easily absorbed than expected. The average price was 99.9, giving a 6.76 per cent yield.

This helped the 10-year bund to gain about ¼ point and the market was generally stronger across the yield curve, with some backing from the strong overnight performance of US Treasury stock.

A 4 basis point cut in the repo rate to 7.71 per cent was in line with the re-established view that the Bundesbank will carry on with small cuts for some time.

Hope has faded that the recent larger reductions in the Lombard, discount and repo rates heralded a run of faster, deeper cuts.

The Bundesbank Council meets today, but nothing startling was expected by way of either comment or action.

The June futures contract opened at 94.87 and closed just over 20 basis points higher.

■ MOODY'S decision to downgrade Italy's foreign currency debt sent the Italian government market into a one point fall, against the trend in other continental markets.

The downgrade takes the rating to less than the level required by some investors. The currency also weakened a little.

Some of the lost ground in bond prices was recovered later in the day. The BTP contract closed less than ½ point lower at 96.75, still above its level before the appointment of Mr Carlo Ciampi as prime minister – and above the 95.50 prevailing when Moody's launched the review in mid-February.

■ THE UK government bond market had a quiet day, with little to give it direction after last week's fall. A lack of economic indicators and some caution ahead of the next gilt auction announcement were two of the factors behind the vacuum. Caution showed through in the buying of longer-dated index-linked gilts, pushing them up a quarter.

■ US Treasury prices were slightly lower in light trading yesterday morning as the market nervously awaited the afternoon announcement of the May refunding programme.

By midday the benchmark 30-year government bond was down 1/16 at 104, yielding 6.806 per cent. At the short end of the market, the two-year note was down 1/16 at 100 1/16, to yield 3.759 per cent.

Prices fluctuated in thin trading throughout the morning as dealers and investors speculated about the Treasury debt mix plans, which are likely to involve some sort of reduction, or possible temporary elimination, in future 30-year bond issues.

Tuesday's news of bigger-than-expected May bill auctions raised expectations that the size of the May bond issue would, indeed, be cut, by possibly as much as $1bn. The actual announcement of the Treasury's plans was not due until about 2.30pm.

FT FIXED INTEREST INDICES

	May 5	May 4	April 30	April 29	April 28	Year ago	High *	Low *
Govt.Secs.(UK)	95.06	95.04	94.70	94.59	95.42	88.81	95.04	93.28
Fixed Interest	111.07	111.00	110.74	110.85	111.77	103.73	113.85	108.67

Basis 100: Government Securities 15/10/26; Fixed Interest 1928. * for 1993. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75). Fixed Interest high since compilation: 113.85 (2/9/93), low 50.53 (3/1/75).

GILT EDGED ACTIVITY

Indices*	May 4	April 30	April 29	April 28	April 27
Gilt Edged Bargains	110.9	103.5	111.7	122.8	109.9
5-Day average	113.5	112.5	114.7	118.5	116.4

* SE activity indices rebased 1974

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
AUSTRALIA		9.500	08/03	112.7334	+0.223	7.58	7.48	7.95
BELGIUM		9.000	03/03	110.9500	+0.050	7.40	7.50	7.48
CANADA *		7.250	06/03	98.4000	+0.050	7.48	7.63	7.66
DENMARK		8.000	05/03	103.1000	+0.450	7.55	7.68	8.00
FRANCE	BTAN	8.000	05/98	105.6143	+0.264	6.64	6.75	6.98
	OAT	8.500	04/03	108.6900	+0.440	7.12	7.15	7.27
GERMANY		6.75	04/03	100.1250	+0.304	6.73	6.72	6.70
ITALY		11.500	03/03	95.2800	+0.585	12.77†	12.62	13.66
JAPAN	No 119	4.800	06/99	102.2517	-0.001	4.34	4.36	4.25
	No 145	5.500	03/02	107.5322	+0.205	4.33	4.44	4.27
NETHERLANDS		7.000	02/03	102.1500	+0.320	6.68	6.64	6.72
SPAIN		10.300	06/02	92.9363	+0.002	11.58	11.54	11.47
UK GILTS		7.250	03/98	100-20	-	7.09	7.05	6.74
		8.000	06/03	99-23	+4/32	8.04	7.94	7.72
		9.000	10/08	105-01	-	8.41	8.32	8.02
US TREASURY *		6.250	02/03	101-08	-31/32	6.08	6.04	6.15
		7.125	02/23	104-02	+25/32	6.80	6.81	6.75
ECU (French Govt)		8.000	04/03	102.9500	+0.170	7.57	7.57	7.88

London closing, *denotes New York morning session. Yields: Local market standard. † Gross annual yield (including withholding tax at 12.5 per cent payable by non-residents). Prices: US, UK in 32nds, others in decimal. Technical Data/ATLAS Price Sources

Italian downgrade squeezes foreign investor base

By Tracy Corrigan in London and Robert Graham in Rome

THE REPUBLIC of Italy's foreign currency debt rating has been lowered from Aa3 to A1 by Moody's, following a review by the US rating agency, but the decision is not expected to halt the Republic's plans to tap the global bond market.

Italian officials have been considering a dollar-denominated global bond for some months, but were waiting for the result of the Moody's review, announced in March.

However, the reduction means that the potential investor base for Italian debt will shrink, as some fund managers cannot buy debt rated below AA. Italy's foreign debt is still rated AA by Standard & Poor's, which is widely viewed as less aggressive in its policy than Moody's.

Dealers do not expect Italy's funding costs in the global bond market to rise further as a result of the downgrade, but the potential size of the issue may have to be reduced.

Italy is expected to raise roughly $10bn-$15bn in the international capital markets this year, of which it has already issued about $3.5bn.

Dealers said the downgrade had been largely discounted. In the dollar market, Italy's 8⅝ per cent Eurobonds due 2001 widened from 100 to 107 basis points over the comparable US Treasury yield following the announcement.

After the poor performance of Italy's debt at the end of last year, yield spreads widened dramatically and only steadied when the debt started to be asset-swapped.

This means that, unlike most high-quality debt, gauged in terms of its yield spread above the relevant government bond, it is treated as a high-yielding floating-rate asset, viewed in terms of the margin over Libor produced by asset-swapping. In these terms, Italy's Eurobonds are trading at 50 basis points above Libor.

The downgrade came a day before Mr Carlo Azeglio Ciampi, former governor of the Bank of Italy, was due to present as prime minister his government's political and economic programme. Mr Ciampi is likely to use Moody's decision to underline the need for continued austerity.

Moody's said that the new government is committed to controlling the bloated public sector deficit, but "the continuing uncertainty regarding the ability of future governments to maintain the required austerity over an extended period of time is higher than appropriate for a AA rating".

The out-going Amato government has already laid the basis for a L13,000bn mini-budget to correct a projected overshoot in spending in the 1993 budget and made plans for the 1994 budget to be drawn up by July. Mr Ciampi is expected to repeat these pledges and outline details on privatisation in order to recoup international credibility.

Mr Ciampi was chosen as a non-parliamentarian to head Italy's 52nd post-war government, in part because of his clear identification to a commitment to fiscal austerity and improving Italy's public finances.

Moody's also lowered the foreign currency debt ratings of Istituto Bancario San Paolo di Torino, Crediop, Banca Nationale del Lavoro, Banca Commerciale Italiana, Credito Italiano, Cassa di Risparmio di Torino, Cariplo and IMI to A1.

● Mercato Italiano Futures, the Italian screen-based futures exchange, plans to introduce new mechanisms for trading the spreads between different contracts.

A calendar spread page, allowing investors to roll over from one contract month to the next, will be introduced on May 20. This will reduce the cost of rolling over contracts, which was previously more expensive than on the London International Financial Futures & Options Exchange.

A second spread page, allowing investors to trade the spread between the five and 10-year Italian government bond contracts, will be introduced at a later date.

Banesto sets out rights issue investor profile

By Tom Burns in Madrid

BANESTO, the Spanish commercial bank, wrongly identified one the main investors in the planned $457m rights issue it announced on Tuesday.

Banesto's press release said "General Electric, which has a Triple A rating, has undertaken to invest $25m" in the issue. It later confirmed that the US financial institution was, in fact, GE Capital.

A statement issued yesterday by JP Morgan, the US bank co-ordinating Banesto's bid to raise a total of $1.2bn in fresh capital, said the actual investor was GE Pension Trust, GEPT, which manages as a fiduciary the pension funds of GE employees.

GEPT, which has its own independent investment activity, is a passive participant in the so-called Corsair Fund, a portfolio managed by JP Morgan which is investing $260m in Banesto's rights issue.

Council of Europe raises FFr1.6bn

By Sara Webb

BORROWERS continued to flock to the French franc sector of the Eurobond market, with yesterday's new issue activity concentrated in the seven-year maturity sector, where there is reported to be quite healthy investor demand.

INTERNATIONAL BONDS

The Council of Europe tapped the market with a FFr1.6bn, 7.25 per cent bond due September 2000, marking its first Eurofranc issue since 1986.

Banque S. G. Warburg, the French subsidiary of S. G. Warburg, was lead manager – an appointment which provoked some comments in the market, given that the lead manager mandate for French franc Eurobonds is seldom awarded outside the mainstream French banking sector.

Market sources pointed out that the deal was swapped into yen, although S. G. Warburg refused to confirm this, saying only that the Council of Europe has a tendency to borrow in currencies which it onlends or where good swap opportunities might be available.

The bonds were priced to yield 35 basis points over the 8½ per cent OAT due 2000, and narrowed slightly to 33-34 basis points over, as market participants pointed out that investors were keen to buy a new borrower in the sector especially given its AA1/AA+ credit rating.

Saint-Gobain Nederland, the Dutch subsidiary of the French glass and building materials group, also tapped the French franc sector with a FFr1bn, seven-year deal.

The Eurobond had a coupon of 7.5 per cent and was priced to yield 60 basis points over the relevant OAT. BNP, the lead manager, said the spread widened out to 64 basis points.

The Eurofranc sector has proved a popular area of the Eurobond market for borrowers since the start of the year. The Kingdom of Spain launched a FFr6bn, 15-year issue late on Tuesday which dealers said was quite well received – the spread over the relevant OAT widened from 44 basis points at launch to 45-46 basis points yesterday.

Both the Eurosterling and Eurolira sectors saw new issuance yesterday. GECC launched a £100m five-year deal with a coupon of 7.5 per cent which was swapped into floating-rate French francs.

Deutsche Bank Finance and KfW International Finance both tapped the Eurolira sector with L200bn and L75bn five-year deals respectively. Deutsche Bank claimed the Eurolira sector held up "reasonably well" despite Moody's downgrading of Italy's credit rating.

Market participants said that they expect to see the launch of a L275m deal for the European Investment Bank shortly.

● News America Holdings, part of News Corp, has filed to register $1.5bn of liquid yield option notes for possible future sales by holders who bought them from the company in March.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book runner
US DOLLARS							
Finance for Danish Ind.(a)‡	105	(a)	100.1R	May.1994	0.1R	-	Lehman Brothers Intl.
D-MARKS							
Europäische Hypo.Lux.(b)‡	175	(b)	100.95	May.2003	1.45	-	Deutsche Bank
FRENCH FRANCS							
Council of Europe	1.6bn	7.25	99.69R	Sep.2000	0.3R	+35 (8½%-00)	Banque SG Warburg
Saint-Gobain Nederland	1bn	7.5	99.788R	Jun.2000	0.35R	+60 (8½%-00)	BNP
STERLING							
WestLB Finance Curaçao	150	8.5	99.788R	Jun.2003	0.35R	+32 (8%-03)	CSFB
GECC	100	7.5	99.448R	Dec.1998	0.275R	+45 (7¼%-98)	G.Sachs Intl./ BZW
ITALIAN LIRA							
Deutsche Bank Fin.Curaçao	200bn	10.375	101.469	Jun.1998	1.875	-	BAI (Deutsche Bk.Group)
KfW Intl.Finance(c)	75bn	10.6	101.625	May.1998	1.875	-	BCI/ JP Morgan Secs.
SWISS FRANCS							
Kingdom of Denmark♦	250	4.5	101.3	Jun.1997	-	-	UBS
Deutsche Ausgleichsbank	200	4.75	101.25	Jun.2003	-	-	Banca del Gottardo
Seine et Marne	65	5	102.5	Jun.2003	-	-	Swiss Bank Corp.

Final terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead manager. ★Private placement. §Convertible. ♦With equity warrants. ‡Floating rate note. #Semi-annual coupon. R: fixed re-offer price; fees are shown at the re-offer level. a) Coupon pays 3-month Libor flat. b) Coupon pays 7.75% fixed annual in the first 2 years and 12.625% - 6-month Libor thereafter. c) Issue launched on 21/4/93 was increased to L300bn.

MARKET STATISTICS

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 5:55 pm on May 5

U.S. DOLLAR STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
ABN 9 1/8 94	200	105⅞	106⅜		4.15
ALBERTA PROVINCE 9 3/8 95	600	110⅝	111⅛	-⅛	4.60
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

OTHER STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
ABBED 7 1/2 98 LFr	600	98½	99⅛	-½	8.35
ECSC 7 3/4 94 LFr	1000	100	101		7.72
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	45	5	27
Other Fixed Interest	3	2	10
Commercial, Industrial	163	369	867
Financial & Property	105	134	580
Oil & Gas	15	21	46
Plantations	0	0	8
Mines	51	16	71
Others	42	41	44
Totals	424	588	1,635

LONDON RECENT ISSUES

EQUITIES

Issue Price	Amount Paid up	Latest Renunc. Date	1993 High	1993 Low	Stock	Closing Price	+or-	Net Div	Times Cov'd	Gross Yield	P/E Ratio
25	F.P.	–	31	29	[illegible]	29		–	–	–	–
70	F.P.	–	218	183	David Brown	218		W6.0	2.4	3.5	16.3
100	F.P.	–	105	100	[illegible]	105		–	–	–	–
–	F.P.	–	½	¼	[illegible]	½		–	–	–	–
135	F.P.	–	159	142	Hambros Ins Service	146	-1	R5.2	2.0	4.5	14.1
165	F.P.	–	216	185	Holliday Chemical	214		W3.7	2.9	2.2	19.7
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FIXED INTEREST STOCKS

RIGHTS OFFERS

Issue Price	Amount Paid up	Latest Renunc. Date	1993 High	1993 Low	Stock	Closing Price	+or-
185	Nil	7/6	24pm	11pm	[illegible]	18pm	
35	Nil	7/5	16pm	8pm	Mayflower Corp.	14pm	-1
290	Nil	10/6	54pm	41pm	Meyer Intl.	41pm	-3
2	Nil	3/6	¾pm	½pm	[illegible]	½pm	
60	Nil	11/6	4pm	3pm	[illegible] (Louis)	4pm	
32	Nil	24/5	7½pm	7pm	[illegible]	7pm	
150	Nil	28/5	24½pm	13½pm	Slough Estates	19pm	
5	Nil	17/5	1¼pm	¾pm	Sycamore	¾pm	
47	Nil	16/6	8pm	6pm	UK Safety	8pm	
33	Nil	11/6	4pm	2pm	Umeco	2½pm	
285	Nil	3/6	40pm	25pm	[illegible]	40pm	

b Figures based on prospectus estimates. M Dividend and yield based on prospectus or other official estimates for 1993-94. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma figures. ♣ Issued by way of rights. † Introduction. § Placing price. †† Reintroduction. Unlisted securities market. ♦ Issued in connection with reorganisation, merger or takeover. pm Price at a premium.

TRADITIONAL OPTIONS

● First Dealings Apr. 26
● Last Dealings May 7
● Last Declarations Jul. 29
● For settlement Aug. 9

3-month call rate indications are shown in Saturday editions.

Calls in Brit. Airways, Blacks Leis., Casket, Caverdale, D.C. Cook, Densitron, Enterprise Oil, Evered Bardon, Fairhaven, Greycoat, Hanson Wrrts., Hartstone, Investment Co., Marks & Spencer, Meggitt, McCarthy & Stone, Ossory Ests., Proteus, Ratners, Savills, Speyhawk Pref. and Tiphook. Put in Expamet. Doubles in Cannon St. Invs., Hanson Wrrts., Marshalls and TR Prop. Inv. Trust.

FT-SE ACTUARIES INDICES

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LIFFE EQUITY OPTIONS

FT-ACTUARIES FIXED INTEREST INDICES

	PRICE INDICES	Wed May 5	Day's change %	Tue May 4	Accrued interest	xd adj. 1993 to date
	British Government					
1	Up to 5 years (25)	127.18	+0.03	127.14	1.71	4.09
2	5-15 years (24)	145.85	+0.09	145.72	1.64	5.22
3	Over 15 years (9)	157.00	+0.07	156.88	2.50	3.18
4	Irredeemables (6)	175.84	+0.05	174.86	0.17	5.12
5	All stocks (62)	142.61	+0.07	142.51	1.82	4.82
	Index-Linked					
6	Up to 5 years (3)	182.95	+0.01	182.95	0.36	1.52
7	Over 5 years (11)	171.61	+0.15	171.36	0.82	1.72
8	All stocks (14)	172.81	+0.13	171.79	0.75	1.75
9	Debs & Loans (68)	127.00	+0.14	126.82	2.26	3.81

AVERAGE GROSS REDEMPTION YIELDS

Royal Bank advances 91% to £92m despite bad debt provisions

By John Gapper, Banking Correspondent

A RETURN to profit in its core branch banking business and trebled profits in its Direct Line telephone insurance operation helped Royal Bank of Scotland raise interim pre-tax profits by 91 per cent, from £48m to £91.6m.

The bank, which increased loans to customers in the six months to March 31 helped by a £650m rise in personal mortgages, said it was confident that full-year provisions for bad and doubtful debts would be below last year.

Lord Younger, chairman, said he was confident of further progress in the second half, helped by renewed economic growth.

"The upturn in performance at the full year is not only being sustained, but is gathering momentum," he said.

Although profit before provisions rose 32 per cent to £285m (£216m), the rise at the pre-tax level was contained by bad debt provisions. These stood at £183m (£163m), but were substantially lower than the figure of £238m for last year's second half.

These latest accounts were prepared under the FRS 3 accounting standard, and the comparatives have been restated accordingly.

The interim dividend is been raised to 3p (2.8p) on earnings per share of 5p (2.9p).

The core ratio of tier 1 capital to risk-weighted assets rose to 7 per cent (6.6 per cent) after the bank retained £15.7m (£1m).

Branch banking returned to profit with £8m (£8.4m profit), after a poor second half pushed it into a £16.1m loss in 1991-92. The Columbus restructuring project was estimated to have raised profits by £5m.

The corporate and institutional banking division raised profits by 39 per cent to £57.1m. "Very considerable progress" had been made in selling treasury and capital markets services to existing corporate customers.

Citizens Financial Group, the US retail banking subsidiary which is to boost its assets by nearly 50 per cent by acquiring Boston Five Bancorp, lifted profits by £12m to £20.9m.

Mr George Mathewson, chief executive, said Royal Bank had been approached by a large US bank which hoped to link with its Ibos service offering cross-border banking services to companies in Britain, Spain, Portugal and France.

The proposed disposal of 90.1 per cent of Charterhouse, Royal Bank's merchant bank, is expected to lead to a book loss of £35m. The net reduction to reserves will be £12m, after writing back £23m of goodwill on disposal.

Net interest income rose to £421m (£384m) as the spread between the interest earned on assets and paid on liabilities rose to 2.2 percentage points (1.9 percentage points) and interest bearing assets rose 12 per cent.

Other operating income rose to £313m (£240m) and now constitutes 42 per cent of total income (38 per cent). Expenses rose by 10 per cent, but the cost to income ratio fell to 61.4 per cent (65.6 per cent).

The shares closed unchanged at 297p.

See Lex

Geest shares dive on banana price war

By Catherine Milton

SHARES in Geest yesterday fell almost a third and analysts said interim profits could drop as low as break-even after the company said a banana price war had slashed prices in northern Europe.

In the first half of 1992 the fresh produce and prepared foods company reported pre-tax profits of £15.4m.

The shares fell 106p to 328p but closed at 366p.

However, Mr Leonard van Geest, chairman, told the annual general meeting yesterday that the board intended to at least maintain the interim dividend at 3.7p.

He said the combination of the drop in prices and "start-up difficulties" at its new banana plantation in Costa Rica would affect first half profits.

Mr van Geest declined to quantify the impact but one analyst said: "We were expecting profits to be between £15m and £16m, but now we are expecting between nought and £2m."

The chairman told shareholders that "while the first quarter of the year began satisfactorily, during April it became apparent that the supply of dollar bananas into the European Community, ahead of the new import regime scheduled for July 1, exceeded demand."

Geest had cut its own prices by 39 per cent owing to the unexpected and rapid fall in banana prices throughout the EC. Prices were significantly below those achieved in the equivalent periods over the previous two years, he said.

Analysts confirmed the roots of the decline in prices lay in the EC's new import regime, from which Geest is set to gain market share. Some banana traders, who are likely to lose market share, had reduced their orders from farmers.

Some banana growers, mainly from Ecuador, had responded by shipping excess fruit to the European continent at discounted prices.

Geest's sensitivity to price fluctuations had been heightened because it is now both a banana grower and trader. The company's new Costa Rican plantation began exporting in January.

The UK market had been relatively stable until France last week announced that it would be limiting imports from certain Afro-Carribean-Pacific states, including the Ivory Coast and the Cameroons.

Mr van Geest said: "This fruit has already started to come on to the UK market and is having an adverse affect on prices."

Berisford presses bid on Clark

By Maggie Urry

BERISFORD INTERNATIONAL yesterday pressed its £184m bid on shareholders of C&J Clark warning of "potentially disastrous consequences" for the company if the offer is turned down.

It said that if its offer failed, Clark, which is a private company, would sink back into the "dissension and acrimony which have damaged their [shareholders'] interest for years".

The proposal of selling the business to Berisford will be voted on at a special meeting of Clark's shareholders tomorrow. Members of the Clark family hold 70 per cent of the shares.

Clark's board has said that the offer from the property and agribusiness company, of 213p a share in cash or securities plus approximately 28p of deferred cash, is "fair and reasonable". Seven of the 11 directors have urged shareholders to accept, but a group of dissident shareholders, supported by three directors who did not recommend the bid, has argued against it.

This group, which has adopted the acronym Shoes, has put forward a plan for a shareholder council and a flotation of the company within five years.

Mr Brian Smith, a non-executive director of Berisford, told shareholders and employees of Clark at a meeting last week that "the Shoes proposals for a shareholder council with board representation is likely to mean that the present internal anarchy will be translated into a more formalised open warfare". Berisford is offering two seats on its board to Clark directors if the offer succeeds.

Mr Alan Bowkett, chief executive of Berisford, said yesterday, "Clark's cannot float in five years or even ten years unless and until the family disagreements which have split the company for the last decade can be solved, and the Shoes campaign starkly demonstrates that this is unlikely".

Clark has been plagued by arguments between shareholders, which culminated in an acrimonious extraordinary meeting last October when shareholders agreed to look for a bidder. Schroders, Clark's merchant bank, contacted over 40 companies seeking offers and a committee of the board chose Berisford's as the best.

Revised Resort terms value County at £3.5m

Resort Hotels is bringing forward its purchase of County Resort Hotels for a revised consideration of 8.5m shares, worth £3.49m at yesterday's price of 41p.

County owns seven hotels in the south of England with a total of 229 bedrooms. Resort has operated those under a management contract, making them an integral part of its network.

Mr Robert Feld, managing director of Resort, said benefits of the acquisition to group earnings would not be immediate.

Former Burton chief joins Ratners board

By Richard Gourlay

MR LAURENCE Cooklin, who was sacked at Burton Group after 14 months as chief executive of the UK fashion company, has been appointed to the board of Ratners, the jewellery chain.

Mr Cooklin will become chief executive UK Jewellery and will report to Mr James McAdam, chairman and group chief executive.

Mr McAdam said yesterday that Mr Cooklin had a considerable reputation as a hands-on manager. "We have not taken him on as chief executive," he said. "It is very much a hands-on job. (At Burton) he was managing director of buying and the merchandising side."

He will be responsible for operational management at Ratners, H Samuel and Ernest Jones, the group's three jewellery chains.

Mr Cooklin stepped into the chief executive slot at Burton when Sir Ralph Halpern, chairman and chief executive, was forced out by shareholder pressure following the collapse in profits in 1990.

While at Burton, Mr Cooklin enjoyed a generous remuneration package, if not equal to that of his boss, the first earner of a £1m salary in the UK, then certainly in line with the extravagance with which the Halpern era became associated.

Mr McAdam stressed yesterday that Mr Cooklin had been given a "perfectly standard" two-year contract and would be receiving a salary in line with other board members.

Holmes Protection chief executive stands down

By Paul Taylor

MR ERIC Kohn, the investor who led the dissident shareholder group which seized control of Holmes Protection Group 18 months ago, has resigned as chief executive and vice chairman of the US-based, but London-listed security concern.

Mr Kohn will remain on the board. He felt the restructuring of the group had been "substantially completed," and said he was resigning for personal reasons to devote time to his other business interests, which include being chairman of Barons Financial Services (UK).

He had always intended to step down once the company had achieved a turnround and was "moving forward" again. He emphasised that there was "nothing sinister" in his decision.

Earlier this year, Holmes announced that, following the successful completion of a debt restructuring programme, pre-tax profits for 1992 totalled \$4.17m (£2.7m), compared with losses of \$35.5m, on turnover down from \$59m to \$56.2m.

The board, headed by Sir Ian MacGregor, once chairman of British Steel and British Coal, has appointed Mr Richard Hickson, formerly chief operating officer, as chief executive and president.

Separately, Holmes announced that it had terminated the lease on its offices at Lake Success, New York.

The company had previously provided \$1.65m for the lease, and will record a gain of \$920,000 after agreeing a termination payment of \$730,000.

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres-ponding dividend	Total for year	Total last year
Beattie (James)	fin	4.6	July 5	4.35	6	5.75
Brown (N)	fin	5.05	July 30	4.25	7	6
German Smaller	fin	2	July 8	1.1	2	1.1
IAWS	int	1‡	June 29	1	-	2
Ryl Bk Scotland	int	3	July 22	2.8	-	8.8
Tate & Lyle	int	4.3	July 20	4	-	12
Trafalgar House	int	1.25†	July 20	4.4	-	6

Dividends shown pence per share net except where otherwise stated. †On increased capital. §USM stock. ‡Irish pence.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetables.

TODAY

Interims- Fidelity Japan OTC, MMT Computing.

Finals- Bank of Scotland, Copymore, Hemingway Props, Highcroft Inv Trust, London American Ventures Trust, Smith (James) Estates, Smurfit (Jefferson), Towles.

FUTURE DATES

Interims-	
BOC	May 18
Butte Mining	May 7
PWS	May 13
Finals-	
Betterware	May 24
Brit & American Film	May 14
Capital Hse Intl Growth	May 13
Chamberlin & Hill	May 19
Dixons	July 7
Donelon Tyson	May 10
Hartlepools Water	May 19
North West Water	May 26
Thorn EMI	May 25

Trafalgar £98m in loss following write-downs

By Roland Rudd

TRAFALGAR HOUSE reported a loss of £97.6m before tax in the half year to March 31 after £120m of provisions, largely relating to a write-down in the value of its property portfolio. Last time there was a pre-tax profit of £54m.

Mr Allan Gormly, chief executive, said: "It is not a question of kitchen sinking it: the provisions are realistic given the group's £1bn investment in property." While he said there would be no need for future provisions, he could not guarantee that there would be no further property write-downs.

Ordinary shares in the construction, engineering and property group rose 3p to 95p with the A shares up 2½p to 94p.

The group confirmed that Hongkong Land, which has a 25.1 per cent stake, will provide the new chairman and finance director. The two posts will be filled by Mr Simon Keswick, who will continue to be chairman of Hongkong Land, and Mr David Gawler, finance director of Hongkong Land.

Touche Ross, which was replaced by KPMG Peat Marwick as auditor, sent a letter to Trafalgar's shareholders rejecting criticism from investors over the 1991 accounts.

These had to be restated after the Financial Reporting Review Panel said that property write-downs should be taken through the profit and loss account and not through reserves.

Mr Gormly said the group would pursue its disposal programme in an orderly manner. "I am not going to rush it."

There have been two serious indications of offers for the hotels, which include the Ritz and the Stafford, but Trafalgar did not find them satisfactory.

The big property development projects have been put on the "backburner", while property for letting will be slowly sold off.

Since September 1992 the workforce has been reduced by 2,600 people and another 500 jobs are to go by the end of this year.

Trafalgar made £22.4m before tax and exceptional provisions, on sales of £1.14bn (£1.21bn). The core businesses, engineering and construction, reported profits of £34.7m (£44.2m) and £7.8m (£9.1m) respectively. Construction projects were also responsible for the £2.8m of profits from associates.

Property incurred a loss of £300,000 (£6.6m profit), while profits from shipping and hotels fell to £200,000 (£8m).

The group is hoping that its two worst performing divisions will benefit from the economic upturn.

Net borrowings were £329m compared with £353m at September 30. After allowing for the rights issue proceeds of £205m, this represents an increase of £181m, some £68m of which was due to the weakening of sterling against the dollar.

Losses per share were 18p (earnings of 6p). The interim dividend is cut to 1.25p (4.4p).

See Lex

Micro Focus shares jump on alliance agreement

By Alan Cane

SHARES IN Micro Focus climbed sharply yesterday on news that the Berkshire-based computer software company has agreed a newstrategic alliance with Microsoft, the world's largest personal computer software house.

The shares rose 65p to close at £20.68, halting a slide which has seen Micro Focus stock lose a third of its value over the past few months. The shares had previously risen dramatically since the shares became available to US investors through ADRs.

The slide was apparently caused by concern that Microsoft might seek some variation in its licensing arrangements with Micro Focus, through which it has access to the UK company's software technology.

Micro Focus is the world leader in software development tools, which enable programmers to design and develop programs in Cobol, the world's most popular business computer language, on personal computers.

Microsoft has in fact agreed to stop selling its own Cobol development system, which incorporated Micro Focus technology, and will instead market the Micro Focus product.

Micro Focus becomes a partner in Microsoft's Solution Providers program, which will give the company direct access to Microsoft information, training, tools and products, as well as the opportunity to resell the Microsoft product line.

N Brown improves 22% to £19m

By Paul Taylor

Sir David Alliance: frequent orders from established customers

Tony Andrews

N BROWN, the Manchester-based direct mail order group which specialises in clothing for older women, yesterday reported a 21.5 per cent increase in full year pre-tax profits.

For the 52 weeks to February 27 profits rose from £15.7m to £19m, on turnover ahead 12 per cent to £170.8m (£152.6m).

Earnings per share were 17.5 per cent higher at 17.74p (15.10p), and a final dividend of 5.05p makes a total of 7p (6p).

Sir David Alliance, chairman, was pleased with the record results in a difficult year for the retail sector as a whole. "Concentration on one of our long held beliefs, of improving service and value to customers, is paying off with strong evidence of established customers ordering more frequently," he said.

The core home shopping business increased sales by 13 per cent to £164.2m (£145.6m) including turnover of £8.2m (£1.2m) from Odhams, the mail order video, compact disc and children's learning packs company, acquired from the receiver in November 1991.

Home shopping operating profits increased 13 per cent to £22.6m (£20m). The previous figure was restated to include £939,000 of exceptional costs related to a warehouse reorganisation.

The operating margin was maintained at 13.8 (13.7) per cent despite only a small contribution to profits from Odhams.

Pre-tax profits also benefited from a £522,000 exceptional profit on the sale of a stake acquired in a potential acquisition target, where a rise in the share price ultimately eliminated the opportunity.

In addition, interest charges fell by 18.5 per cent to £3.3m (£4.05m) mainly reflecting the lower cost of funds. Gearing at the end of February stood at 37 per cent (44 per cent).

● **COMMENT**

Brown has built a solid reputation for recession busting on the back of its carefully targeted niche direct mail-order business focused primarily on selling clothes to older women. It claims 24 per cent of the £726m UK direct home shopping market which, unlike the larger agency business, has been growing quickly over the past decade. Demographics are working in the group's favour. However, it has also been actively reducing costs and improving customer service, for example, by consolidating five warehouses into a single unit and investing in computer technology – measures which are only just beginning their pay back. Aside from the Odhams acquisition it is also expanding its existing business. Of the turnover 15 per cent came from the three new catalogues launched in the past three years. The share price has risen in recent months, but with pre-tax profits of about £21m this year putting the shares on 18 times prospective earnings, the stock could still go higher.

US effect puts LIT £1m in red

LIT Holdings, the marketing services, investment and fund management group, swung from profits of £1.29m to losses of £1.21m pre-tax for the year to end-December.

Operating profits of Johnson Fry, the UK financial services activity, rose from £2.4m to a record £2.81m.

However, LIT America, the provider of market services to the US futures and options markets, ran up a loss of £50,000. This compared with profits of £2.39m previously.

A provision of £1.8m against doubtful receivables at LIT America was taken above the line.

Last month it was announced that agreement in principle had been reached for the sale of LIT America to Spear Leeds & Kellogg, a New York-based securities firm.

Consideration will be in cash and loan notes.

Proceeds of the cash element will be used to reduce indebtedness, which at the year-end stood at £11.3m.

Group turnover for 1992 totalled £76.9m (£81.5m). Central charges were cut from £3.6m to £3.1m.

Losses per share emerged at 6.8p (1.4p).

The directors said the preliminary results had been prepared without regard to the possible financial effects of the proposed sale of LIT America or the proposed capital reconstruction.

ERF launches vehicle for recovery

By Kevin Done, Motor Industry Correspondent

ERF, the last independent publicly-quoted UK heavy truck maker, launches today its new EC range of heavy trucks following a four-year, £14m investment programme.

The EC truck range will play a crucial role in the company's effort to recover from recession and end three successive years of losses. In parallel with the new product development programme ERF has:

● carried out a reorganisation of its assembly operations in Sandbach and Middlewich, Cheshire;

● reached agreement with its hourly-paid employees to allow team-working and flexibility in working practices with the removal of demarcation lines;

● entered the continental European market with the establishment of 13 distributors in France and five in Spain.

The EC range, which will replace ERF's existing E-series heavy-duty trucks, has been developed during the harshest recession endured by the UK truck industry in the post-war period.

ERF has suffered losses for the last three years, as the UK heavy truck market (above 16 tonnes gross vehicle weight) has more than halved with overall UK heavy truck registrations plunging to only 16,427 last year from 38,935 in 1989.

ERF's production in 1992 fell to 1,904 from 2,102 in 1991 and 4,319 in 1989. Its UK registrations improved modestly by 2.6 per cent last year to 1,636 giving it an unchanged 10 per cent share of the UK heavy truck market.

Mr Peter Foden, chairman, said yesterday that new orders had started to recover during the early months of 1993, and the company had returned to full time working.

Output had been raised to 10 trucks a day, five days a week. During the depth of the recession output fell as low as six trucks a day with only a three-day week compared with a peak output of 21 a day in the first half of 1989 before the onset of recession.

Mr Foden said that capacity at the Sandbach assembly plant had been increased from 21 a day to 30 a day on a single shift as part of the preparation for the launch of the EC truck range. Cab assembly and painting has been transferred to the nearby Middlewich plant.

ERF is aiming to increase productivity by about 20 per cent as a result of its new labour agreement, which has:

● replaced the separate trades of body-builder, fitter, electrician, welder and sprayer with a single category of "assembler";

● established team working with each member in the 12-15 strong teams trained to carry out all of the jobs covered by the team;

● abolished clocking in for a six-month trial period.

ERF has agreed a 4 per cent increase in basic pay rates from July 1 (or the rate of inflation if higher) following a pay freeze since July 1992.

The company suffered a pre-tax loss of £2.7m, including exceptional costs of £945,000, in the six months to the end of September 1992. The second half results have been burdened by similar exceptional charges of some £1m arising from the new EC truck range launch costs and the costs of setting up the distributor networks in France and Spain.

A Fisher sells herbs and spices to Burns Philp for £25m

By Andrew Bolger

Albert Fisher, the food processing and distribution group, has agreed to sell for £25m the herbs and spice businesses acquired as part of its recent acquisition of Hunter Saphir.

Burns Philp, an Australian group which is already the second largest supplier of herbs and spices in North America, will pay cash for the businesses, which comprise two plants in the Netherlands and a recently rebuilt factory in Northampton.

Albert Fisher paid £29.3m for Hunter Saphir in January, and assumed debt amounting to £9.8m. The group has therefore ended up buying the fresh produce part of Hunter Saphir, which is what it wanted to keep, for £14m.

Mr Stephen Wells, who in July takes over as chairman of Albert Fisher from Mr Tony Millar, said he was pleased with the outcome. The merger of the two fresh produce operations had started well.

Mr Andrew Turnbull, Burns Philp's managing director, said: "The acquisition gives us a strong base to enter the European industrial food service and consumer spice markets, using the knowhow and experience we have developed in North America."

IAWS shows 35% advance to I£1.19m

A 35 per cent increase in pre-tax profits was achieved from lower turnover by IAWS Group in the half year to January 31.

This Irish-based food and agricultural company produced I£1.19m (I£1.17m) compared with I£880,000. Turnover came to I£176.2m (I£182.8m) reflecting slightly lower unit prices which resulted from the strength of the punt.

Directors said the results were good against the background of currency difficulties and high interest rates.

The food companies performed particularly well following the buy-out of the minority in Shamrock Foods.

Purchase of the Hull fish meal and fish oil business enabled the group to expand that activity into the UK for the first time.

Earnings were 0.93p (0.7p) and the interim dividend is again 1p.

Olivetti UK back in the black

By Alan Cane

GOOD HOUSEKEEPING and a tight rein on expenses helped Olivetti's UK subsidiary return to profit last year despite deteriorating trading conditions and falling prices.

The improvement seems to justify the decision taken at the beginning of 1992 to merge Olivetti Systems and Networks and Olivetti Office into a single company.

Profit before tax was £1.04m, compared with a loss of £545,000. Turnover was flat at £202.2m (£203.5m).

Operating expenses were cut from £40.1m to £32.6m and interest payments were reduced from £5m to £1.6m. Mr Paolo Tosi, Olivetti UK managing director, said the improvement had been the result of a review which reduced operating expenses by 20 per cent. Tight control over working capital and inventory helped to reduce interest costs.

Mr Tosi said that the price of hardware had fallen during 1992 by an average 40 per cent, putting heavy pressure on profit margins.

Olivetti's new range of low cost personal computers was doing well, Mr Tosi said, with revenues up more than 20 per cent in the first quarter of 1993 compared with the same period in 1992.

By comparison, Olivetti as a whole lost L649.9bn (£276.3m) on revenues of L8,025bn.

Flotations ahead in first quarter

FOR THE first quarter of this year the number of companies floating on the Stock Exchange rose from 12 to 16.

KPMG Corporate Finance estimated that 1993 as a whole should see more than 90 new issues.

That would be a return to the 1991 level after a total of 70 last year.

Mr Neil Austin, head of new issues at KPMG, said there were a great deal more companies currently interested in flotation than at the same time last year.

For some companies flotation was, however, an inappropriate method of funding growth as recovery takes root.

"There is a gap between development capital, which has an important part to play, and a full flotation."

"It must be hoped that the continuing discussions on a second market can produce a viable middle option," he said.

NEWS IN BRIEF

INCHCAPE has been given exclusive import and distribution rights throughout Argentina for agricultural and industrial tractors made by Fiat and Ford and for New Holland combine harvesters and hay equipment. Inchcape is investing £6.4m to set up a new Argentinian operation, Agrotecnia.

OMI INTERNATIONAL has acquired Forward Industries from Aerospace Engineering for £100 cash. In addition OMI has discharged bank and inter-company debt of Forward Industries of £2.37m.

SHERWOOD GROUP: By the April 30 closing date valid acceptances of the placing and open offer had been received in respect of 5.3m shares – over 100 per cent of the shares available.

SIMS FOOD Group has acquired the business and assets of Grand Metropolitan's hamburger maker, currently trading as Oakland Fast Food and forming part of Express Foods (International). Its main customers, Burger King and Wimpy International, account for 83 per cent of turnover.

WATERGLADE: The contract to purchase 12.24m ordinary shares (18.48 per cent) in Seafield from Fidex International Trust has lapsed. The present holding by Waterglade and its associates is 7.1m ordinary (10.72 per cent). The total consideration for these purchases amounted to £477,125.

Benefit of sterling devaluation and fall in green pound offset one-off charges

20% expansion for Tate & Lyle

By Maggie Urry

TATE & LYLE, the sugar and sweeteners group, lifted half year pre-tax profits by 20 per cent to £107.6m, and is increasing its interim dividend by 7.5 per cent to 4.3p.

Mr Neil Shaw, executive chairman, said the group was confident of making "good progress for the year as a whole". In the last financial year it suffered its first profit fall for 14 years.

He said the group was looking at more investment projects than ever before. These included markets such as China, Russia and south-east Asia.

The current year should see profits from the Hungarian sugar and starch operations, he said, although the potato starch plant in eastern Germany, opened last autumn, was suffering from oversupply in the market. Progress on sucralose, a low calorie sweetener, and Stellar, a low-calorie fat substitute, had been slower than Tate had hoped, however.

The shares fell 8p to 397p.

Devaluation of sterling and the fall in the green pound aided profits for the 26 weeks to March 27. Translation gains added £7.4m, and another £4m came from better sugar margins because of higher prices caused by the green pound fall, and a £3m stock profit also came from the green pound's move.

However, Mr Paul Lewis, deputy chairman and group finance director, said there were also one-off costs in the half year, such as £4m relating to the five month strike at Domino Sugar's Brooklyn refinery in the US, and another £4m to bring the overseas pension funds up to UK accounting standards.

The figures also included an amount, believed to be approaching £1m, of compensation to Mr Stephen Brown, the former chief executive whose departure was announced in March. Mr Shaw said there was no intention to replace Mr Brown from outside the company.

There were four contenders for the post within the group, running the four main divisions, and one of these could become chief executive in the next two to three years, Mr Shaw said.

Profits for the comparable half year were restated at £89.7m, down £2.3m, because of a change in accounting for employees post-retirement health benefits.

Turnover rose 13 per cent to £1.85bn, and operating profits were up 12 per cent to £127.2m.

Operating profits from sugar in North America fell 20 per cent to £17.3m, affected by the Domino strike and by weak prices and oversupply in the market. That was more than offset in the UK, European and Australian sugar operations where profits rose 30 per cent to £51m. UK profits were boosted by the green pound and by improved productivity, while in Australia there was a record tonnage produced.

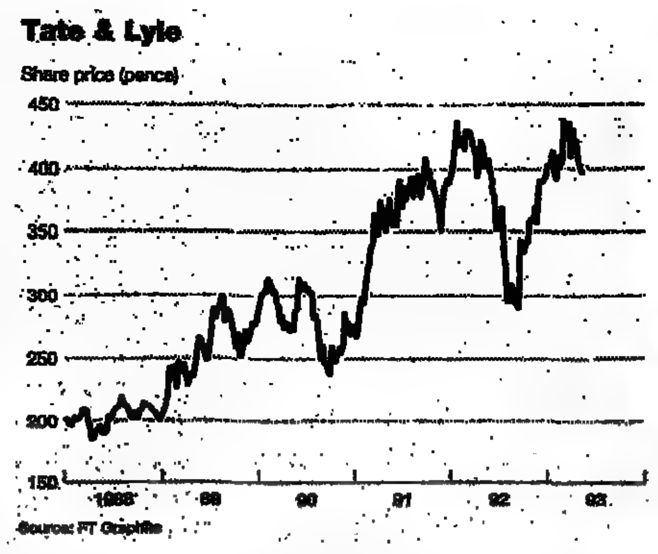
The geographical mix was reversed in sweeteners and starches, with North American profits up 24 per cent to £34.9m, on the recovery at Staley, but European profits fell 18 per cent to £21.5m.

Profits from sugar by-products rose 47 per cent to £16.6m. Associates profits were up from £3.1m to £4.8m.

The net interest charge fell from £26.7m to £24.4m. Strong cash flow reduced the bill but translation of overseas debt pushed gearing up slightly to 92 per cent, which is a seasonal peak.

Fully diluted earnings per share were up from 12.9p to 15.9p.

See Lex



Neil Shaw: four contenders for chief executive position

Cheltenham to take over Heart of England

By John Gapper

CHELTENHAM & Gloucester Building Society yesterday disclosed that it will take over the marginally profitable Heart of England Building Society following the collapse in March of an attempt to do so by the Bank of Edinburgh.

Mr Andrew Longhurst, C&G chief executive, said the proposed merger was "not a rescue". It had assessed Heart of England's mortgage book and assets closely following a problematical merger with the Portsmouth Building Society in 1991.

"We have said before that we're not in the rescue business, and this is not a rescue," he said. Heart of England was a "middle England society with a middle of the road mortgage book quite unlike the Portsmouth", he added.

C&G's pre-tax profit for 1992 fell 29 per cent after making £211m provisions against bad and doubtful debts, which included £90m against loans inherited from the Portsmouth, a society with a poor mortgage book.

C&G, the sixth largest society with assets of £16bn, indicated that it may close 12 of Heart of England's 50 branches which overlap with its own. Heart of England members will vote on the proposal on June 8.

The society said that because its reserve to assets ratio of 4.54 per cent was higher than Heart of England's 4.22 per cent, it would not pay a bonus. Heart of England members would earn extra interest, and get a discount on new mortgages.

Heart of England, based in Warwick, had assets at February 28 of £1bn, and pre-tax profits for the year were £1.6m.

Rationalisation helps Serif cut loss to £943,000

Losses at Serif, the USM-quoted specialist printer and packaging group, were cut from £2.21m to £943,000 pre-tax for the year to the end of December.

The period was one of rationalisation and reorganisation. Sales of continuing activities amounted to £21.4m (£28.5m).

Operating costs were reduced to £21.8m (£38.5m) and exceptional provisions were £649,000 (£1.04m).

Tax took £80,000 (£294,000) and after extraordinary charges of £795,000 (£5m) the retained loss emerged at £1.82m (£7.52m).

Losses per share were lower at 4.1p, compared with 10.1p.

The company is proposing a capital reduction in order to resume ordinary dividend payments.

Mr Alan Brooker is to retire as chairman. He will be succeeded by Mr John Pryke, the chief executive.

James Beattie falls to £6.83m

Profits at James Beattie, the West Midlands-based stores group, declined from £7.73m to £6.83m pre-tax over the year ended January 31. Sales, excluding VAT, improved 10 per cent to £74.6m.

Investment income and interest fell 24 per cent to £1.89m. Earnings per share slipped to 9.8p (11.3p) but an increased final dividend of 4.6p lifts the total from 5.75p to 6p.

The directors said the results were achieved in a retail climate "dominated by unremitting trading pressures throughout the year." The company is due to open its ninth store, at Aylesbury, in September.

RTZ says no decisive rise likely this year

By Kenneth Gooding, Mining Correspondent

RTZ, the world's biggest mining company, would have to wait at least until 1994 for a really decisive improvement in operating results, said Sir Derek Birkin, chairman, at the annual meeting yesterday.

Nevertheless, in spite of a high level of capital investment, RTZ's cash flow would remain strong and the balance sheet robust.

Sir Derek suggested that, although most metals prices would probably go no lower, "recovery to higher price levels will be a slow process."

RTZ had not been surprised by the recent steep fall in copper prices but this was the most important metal for the group and every 10 cent per lb movement in the price affected net earnings by £60m.

Economic recovery in North America, "and I hope just commencing in the UK," would benefit RTZ's industrial operations and the probable changes in the US dollar-sterling exchange rate this year would also have a beneficial impact on earnings reported in sterling.

As usual the meeting was enlivened by questions and protests from action and interest groups about RTZ activities worldwide – this time specifically about mining in Richards Bay, South Africa, in Honduras and Nevada. There were also questions about directors' bonuses and whether the auditors should be changed to revent them and RTZ becoming, "too chummy."

Sir Denys Henderson, the non-executive director who heads RTZ's remuneration committee, defended the decision to increase directors' bonuses last year by 48 per cent to £160,386 on the grounds that the company needed to attract, motivate and retain the best talent available.

He pointed out that total directors' payments were up by 2 per cent last year which was "not unreasonable."

RPC flotation to raise £30m and give £75m value

By Maggie Urry

RPC GROUP, the rigid plastic packaging company, has issued the pathfinder prospectus for its flotation later this month. The float is expected to value the group at about £75m and raise over £30m.

Of the shares sold, 65 per cent will be placed with institutions and 35 per cent will be available through a financial intermediaries offer.

The price of the shares will be announced on May 18.

The prospectus showed that operating profits for the year to March 31 rose from £4.96m to £6.95m, on sales ahead 10.2 per cent at £63.7m.

It said that the new financial year had started well with "encouraging" order levels and production activity across all its product ranges.

Since the group completed a £33.4m management buy out two years ago profits have risen 2½ times.

CINVen, which backed the MBO, is to retain about 25 per cent of RPC's shares after the float. Management and employees will have about 20 per cent.

Unusually, RPC will increase its debt through the flotation. It will use more than the money raised to redeem preference shares and buy back shares from existing investors including staff.

As a result the group will add about £4.3m of debt, with gearing rising from virtually nil, prior to the float, to nearly 20 per cent afterwards.

RPC's directors said they were confident that the company's strong cash generation, which has allowed it to repay £12m of debt and invest another £12m since its MBO, meant taking on debt would not be a problem.

RPC has about 10 per cent of the rigid plastic packaging market in the UK, making it the second largest participant.

No one customer accounts for more than 5 per cent of sales, and 44 per cent of its turnover is in food containers. Packaging for surface coatings, mainly paints, represents the largest single part of turnover at 21 per cent.

Mr Ron Marsh, chief executive, said RPC had an excellent opportunity to become the dominant manufacturer of rigid plastic packaging in the UK market.

This type of packaging has been growing faster than others, for example, as it was substituted for other materials such as metal and glass.

Paints used to be packed in cans, but now more than half the market for emulsion paints was in plastic pots.

About 35 per cent of tomato ketchup was now sold in squeezy bottles instead of glass.

RPC is keen to expand into packaging for toiletries and is also looking at making European acquisitions.

The prospectus said that prices of polymers, the main raw material accounting for 29 per cent of group costs, were beginning to rise after falling significantly since 1991.

Mr Marsh said that 30 per cent of group turnover was on contracts where prices were linked to polymer prices.

He said there had not been a significant benefit from falling prices over recent years.

Baring Brothers is the merchant bank and Cazenove the broker to the issue.

Buy-out at Inenco for £10m

Inenco, a consultancy group specialising in cost-savings on energy, water and telecommunications, has been bought from its founders by its management for about £10m.

The deal, which ensures independence and management succession, is backed by 3i and Montague Private Equity with £6m of equity and loan finance. Barclays is providing £3.5m of debt facilities.

Inenco is based in Lancashire. It has 3,500 customers and last year achieved £30m of savings for them, making £1.5m profit on £8m turnover.

COMMODITIES AND AGRICULTURE

Zinc price slide triggers more cuts in production

By Bernard Simon in Toronto and Kenneth Gooding in London

LOW ZINC prices are forcing additional production cuts to be made by Noranda, the Canadian natural resources group, and its 50 per cent-owned associate, Falconbridge.

In February the two companies said that output of zinc in concentrate (an intermediate product) from their five mines in Canada would be reduced this year from the 573,000 tonnes produced last year to 530,000 tonnes. Yesterday they said that output would be only 500,000 tonnes.

Noranda predicted that its action, to be achieved through longer summer shutdowns and revised mining plans, would "make a substantial contribution towards restoring balance in the zinc market". The market's first reaction was favourable and zinc for delivery in three months on the London Metal Exchange rose to $1,040 a tonne, traders said. But this stimulated selling and the price closed at $1,024.25 a tonne, down $2.

"Once the market realised it was an additional cut of only 30,000 tonnes the panic short-covering subsided," said Mr William Adams, analyst at Rudolf Wolff, the commodities broker. "To put that in perspective, the last rise in LME stocks was of 15,000 tonnes and the stocks stand at 636,800 tonnes."

Mr Nick Moore, analyst at Ord Minnett, part of the Westpac banking group, said: "This helps sentiment a little but, given the stocks and the outlook for zinc, this won't turn things round".

Zinc production cuts have been announced by several other companies. But the recent spring meeting of the International Lead and Zinc Study Group, an intergovernmental organisation, produced a gloomy review of prospects, saying that output cuts in Canada and Japan this year would not fully compensate for increases in Latin America and Korea. Also exports to the west from the former eastern bloc countries were likely to remain "substantial."

Gold demand 'up 24%' in first quarter

By Kenneth Gooding

GOLD DEMAND in markets monitored by the World Gold Council rose by 24 per cent to 632 tonnes in the first quarter of this year compared with the same months of 1992. The council is a promotional organisation financed by gold producers and the markets monitored cover about 75 per cent of world demand.

This jump in demand coincided with very weak gold prices and the price dropped to $326.15 a troy ounce on March 10, the lowest for seven years. Prices ranged between $326 and $331 an ounce in the quarter.

According to the council, the developing markets continued to drive gold demand growth. In Asia first-quarter demand was up 22 per cent at 243 tonnes and in the Middle East and India it was up 56 per cent to 203.1 tonnes.

Following liberalisation of the gold market in 1992, demand in India soared by 93 per cent in the first quarter to 114 tonnes.

However, gold jewellery demand in the developed markets fell by 2 per cent to 131 tonnes with a 4 per cent increase in US consumption being offset by an 8 per cent fall in Europe while Japanese demand remained flat.

Strikes plunge plantations into crisis

By Shiraz Sidhva in New Delhi

LABOUR UNREST in Kerala, Southern India, has plunged rubber, tea, and coffee plantations in the area into a crisis, with frequent strikes causing heavy production losses.

Talks between Mr N. Ramakrishna, the state labour minister, and trade union leaders of the Plantation Labour Committee have failed, with the committee putting forward further demands and the government unwilling to revise wages, saying that losses had already been suffered as a result of wage increases worth Rs1m (£350,000) a year acceded to in February.

A single day's token strike by plantation workers agitating for increased wages and cost of living allowances last week, resulted in production losses of 300,000 kg of tea, and 150,000 kg of rubber, besides a loss of 450,000 working days and Rs17.8m of revenue. The Kerala state government lost Rs1.1m by way of sales tax in a single day.

The plantation industry, Kerala's largest, employs 450,000 workers.

NY coffee futures fall still further

By David Blackwell

NEW YORK'S arabica coffee market was again in steep decline in late trading yesterday as the roller-coaster ride of recent weeks continued.

The July contract was off more than 2 cents at one stage at 56.25 cents a lb after an overnight fall of more than 5 cents. London's July robusta market followed cautiously, trading only 300 lots in the first one and a half hours, and closed down $29 at $860 a tonne.

Last week nearby New York prices rose by more than 9 cents after US certified stocks fell by 100,000 bags (60 kg each). Analysts in London yesterday suggested that the fall in the high level of stocks had been taken as the first evidence that a widely-expected drawdown in stocks for the 1992-93 year had begun. Funds, commission houses chartists and speculators plunged into the market.

A further fall was expected this week, but in the event US stocks rose by 15,000 bags to 5.58m bags – and last week's buyers bailed out.

"The market has been flying in the face of fundamentals," said Mr Lawrence Eagles, analyst with GNI, the London futures broker. "People are going to have to revise their production and consumption estimates for 1992-93."

He believes the figures will show the market to be in balance for the season just ended, and is expecting production to exceed consumption by 5m bags in 1993-94.

One London trader said he had been surprised at the speed of New York's retracement on Tuesday, but the close below 60 cents a lb made it inevitable the market would fall further. He suggested strong support between 54 and 56 cents a lb.

Mexican silver close to melt-down

Low prices are threatening many mines, writes Damian Fraser

MEXICO'S SILVER industry is facing crisis. "Everything you see out there is due to silver" says Mr Raul Rodriguez Marquez, planning minister in the once fabulously rich Mexican state of Zacatecas. "Now, what's certain, and it's no secret, mines are going to close."

Mexico is the world's largest silver producer, accounting for about one seventh of total output. But the silver industry, once the backbone of the country's economy, with production sustaining both New and Old Spain for more than two centuries, is in now trouble.

World silver prices tumbled from more than US$50 a troy ounce in 1980 when the Hunt brothers tried to corner the market, to an average of $7 an ounce in 1987 and about $3.90 in the first quarter of this year, though a recent recovery has since lifted it above the $4.20 mark . Hundreds of smaller mines have already been closed or restructured, forcing thousands out of work. Mr Jaime Lomelin of the Peñoles group, the largest silver producer in the world, reckons that no more than 20 low-cost Mexican mines will survive the current shake-out. Given current prices, his group has stopped exploring for more silver.

Earlier this month, the governor of the state of Zacatecas announced closure of the mine at Real de Angeles – the largest open pit silver mine in the world, with annual production of about 250 tonnes. With it would go some 400 to 500 jobs directly and another 800 indirectly.

Mexican mines are particularly sensitive to low silver prices because they tend to produce silver as a primary or co-product with currently loss-making metals such as lead or zinc, whereas, say in the US, the second largest silver producer, mines generally extract silver as a by-product of copper, which is still just about profitable.

> 'What is irrational is to carry on taking out silver when losing money on operations, while also reducing your reserves.'

Mr Jose I. Villanueva, director-general in Mexico's ministry of energy, mines, and state industries, says: "I think we are at the limit. A price of around $3.60 would make any company in the world worry". He warns that production could crash if prices do not rise.

Until recently, the worst affected in Mexico had been the hundreds of small mines and the individual miners who scour the landscape looking for silver and other metallic ores. Mr Rodriguez Marquez, the head of planning, mines and tourism in the state of Zacatecas, says in his state alone about 80 to 90 out of some 270 small mines have closed in recent years. The Peñoles group has closed down seven of its smaller mines in the past five years while increasing production in the 11 larger, minerally richer ones.

The small mines have the highest costs, often little access to capital and no liquidity – a bad year would put them out of business. The new satellite technology that allows large mining companies to detect silver deposits under the ground is rendering much of their explorative work redundant.

Up to now overall Mexican silver production has held up, thanks to greater efficiency in the larger mines - which account for about 85 per cent of production. Mr Lomelin says his remaining mines produce at some of the lowest costs in the world and could survive at a silver price of $3.50 an ounce. However, with the imminent closure of Real de Angeles, the mining ministry expects non-refined output this year to fall to 1,805 tonnes, from 2,098 last year, and 2,290 in 1991.

The mine at Real de Angeles, owned 51 per cent by Empresa Frisco of Grupo Carso, and 49 per cent by the Canadian company Placer Dome, is closing principally because of lower silver prices, and recent falls in prices of the mine's by-products, zinc and lead. But after more than 10 years of intensive exploitation, the quality of the ore has deteriorated, while the cost of refining has increased three times, and reserves were falling.

Mr Carlos Slim, the president of Grupo Carso, says the closure is temporary, while prices of silver and metallic bi-products remain low. The company will continue to look for silver in the area, and Real de Angeles will be kept in operating condition in case silver prices rise again. "What is irrational," says Mr Slim, "is to carry on taking out silver when losing money on operations while also reducing your reserves."

The closure will leave two neighbouring towns of Noria de Angeles and Real de Angeles without any source of employment. "It is going to hit us very hard. Almost the entire population of the area worked there," says Mr Marquez. "The region is not fertile, the rain is not generous and the people are accustomed to working in just one industry."

Among the villagers of Real de Angeles there is bitter resentment at the treatment they have received at the hands of the government and mining company. The village itself was moved from the old site to make way for the mine in 1981 – but the promised riches residents felt they were going to receive never materialised. The mine has already cut the labour force from 2,500 in 1987 to 500.

"They were supposed to compensate us," says Mr Marco Antonio Mora, a 24-year-old who once worked at the mine. "But what they gave us was not that much." The village's new houses have been built with aluminium roofs, making them like ovens in the summer, and in place of the promised gardens and patios is a large dusty gravel square. Many worry that the town will die when the mine closes and, they fear, the water is cut off.

Big rise seen in European gas market

By Karen Fossli in Oslo

THE EUROPEAN gas market is likely to enjoy a period of sustained growth over the next 20 years, according to a report soon to be released by Wood MacKenzie, the Edinburgh-based energy analyst.

But while it sees annual demand growth averaging 3.1 per cent for the present decade, it warns of a significant supply gap developing from the mid-1990s.

WoodMac forecasts that European gas demand will rise to about 485bn cubic metres a year in the year 2000 from 353bn cu m in 1992, fuelled by strong demand for natural gas in the power generation sector. The proportion of gas in use in the power generation sector is expected to rise from about 16 per cent in 1992 to 34 per cent by 2010.

The analyst says that Germany, Great Britain, Italy, the Netherlands and France will continue to dominate overall European gas demand until 2000, but their combined share of total demand is forecast to slip to 64 per cent in 2010 from 70 per cent in 1992 as new markets like Spain and Sweden emerge.

However, WoodMac warns of a "significant supply gap" from the mid-1990s, which will hit 98bn cu m a year by the year 2000 and widening to 380bn cu m by 2010.

"Whilst part of this gap in the longer term can be closed by the extension of existing supply contracts, significant new volumes of gas are required," it says.

"Although we consider that significant, additional indigenous production above currently contracted levels is possible from the North Sea, the remaining gap in supply during the late-1990s is a major concern."

Norway, which supplied Europe with 9 per cent of its overall demand in 1992, has considerable potential to increase gas supply but the substantial extra investments required to upgrade gas deliverability must be justified by an adequate return on investment.

"In this regard, the current Troll price negotiations could be crucial given the status of the Troll contract as a benchmark for future gas supplies," Woodmac says.

Norway's remaining recoverable gas reserves are estimated at 2,800bn cu m, of which some 56 per cent remains to be contracted. The pipeline capacity of Norway's transmission system to the continent will reach 46bn cu m a year in the mid-1990s with potential for expansion to 67bn cu m.

Denmark's slaughtermen to end strike

By Hilary Barnes in Copenhagen

A RETURN to work by 16,000 Danish slaughterhouse workers is expected on Monday following a strike over wages and working conditions that began on April 26.

A compromise agreement was reached yesterday between the Food Workers' Union and the employers. But before it comes into force it must be approved by a ballot of union members over the next few days.

The stoppage, which halted meat and bacon exports, was the first in the Danish abattoir industry for ten years. It began after collective wage negotiations broke down and the union rejected an arbitration proposal.

Aluminium depression forecast to continue

By Frances Williams in Geneva

ALUMINIUM PRICES are expected to remain depressed this year, with higher demand offset by increased production capacity, according to the United Nations Conference on Trade and Development.

Unctad, which last week hosted a meeting of bauxite consumer and producing countries, reckons that at current prices more than half the world's aluminium capacity (excluding eastern Europe and the socialist countries of Asia) is operating at a loss.

Unctad foresees a rise in primary aluminium production capacity of about 570,000 tonnes in 1993, broadly in line with 3 to 4 per cent growth in demand. This, it says, implies little or no reduction in record stocks of about 1.7m tonnes accumulated in London Metal Exchange registered warehouses, equivalent to more than a month's global consumption of primary aluminium.

Further cuts in capacity utilisation and closures of high-cost smelters may be needed to avoid a complete collapse of the price this year, Unctad warns.

Aluminium prices fell from a high of about $2,100 a tonne in September 1990 to below $1,100 a tonne late last month. That reflected recent increases in production capacity, the steep climb in exports from the former Soviet Union and the maintenance of output despite low prices.

The prices of upstream products, alumina (aluminium oxide) and bauxite (aluminium ore), have also been affected, Unctad notes. Prevailing prices for alumina are insufficient to justify investment in new capacity, which could restrict supply in future years, it says.

Guinea is by far the biggest bauxite exporter, followed by Brazil and Australia. Australia is the leading exporter of alumina, while Canada, the US and Norway head the export rankings for unwrought aluminium.

The former Soviet republics have boosted annual exports from between 200,000 and 300,000 tonnes a year to between 800,000 and 900,000 tonnes in 1991 and 1992, according to Unctad.

The increase is equivalent to about a quarter of previously estimated Soviet consumption. Though the flood of ex-Soviet aluminium exports may abate, Unctad believes they will still top 500,000 tonnes this year and next.

WORLD COMMODITIES PRICES

MARKET REPORT

ALUMINIUM closed near five-week highs on the LME in active trading, three-month metal touching $1,169 a tonne at one stage. The market was underpinned by speculative buying, investment fund purchases and short-covering. Caution ahead of US labour contract expiries at the end of this month also encouraged the metal to break resistance around $1,150. **COPPER** moved away from its lows helped by news that El Teniente in Chile might be closed for five days because of recent rains. Copper's movements were largely dictated by technical factors, with May option expiries passing without surprises. **GOLD** fixed at $354.25 a troy ounce in the afternoon against $352.75 in the morning after physical demand pushed Comex higher shortly after its opening. But they were slightly concerned about the choppy nature of the market despite its moving to a couple of dollars above its key $352 support level, which was tested twice. Below this the next buffer was at $348; on the upside, $357-$358 was seen attainable this week with $360 a more formidable task, dealers said.

Compiled from Reuters

London Markets

SPOT MARKETS		+ or -
Crude oil (per barrel FOB)(May)		+ or -
Dubai	$16.30-6.35	-0.18
Brent Blend (dated)	$16.96-6.98	+0.06
Brent Blend (Jun)	$19.10-9.12	-0.02
W.T.I (1 pm est)	$20.41-0.45	-0.08
Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$213-215	
Gas Oil	$162-163	-1.0
Heavy Fuel Oil	$76-78	-0.5
Naphtha	$184-185	
Petroleum Argus Estimates		
Other		+ or -
Gold (per troy oz)♦	$353.85	-1.05
Silver (per troy oz)♦	427.5c	
Platinum (per troy oz)	$373.8	-1.1
Palladium (per troy oz)	$116.0	+0.25
Copper (US Producer)	88.5c	-0.5
Lead (US Producer)	34.63c	
Tin (Kuala Lumpur market)	14.09r	
Tin (New York)	257.5c	+1.0
Zinc (US Prime Western)	62.0c	
Cattle (live weight)†	127.04p	+0.56*
Sheep (live weight)†♦	132.38p	-4.96*
Pigs (live weight)†	88.84p	+0.61*
London daily sugar (raw)	$300.6	-0.8
London daily sugar (white)	$304.0	-1.0
Tate and Lyle export price	£304.0	-1.5
Barley (English feed)	Unq	
Maize (US No. 3 yellow)	£164.5	
Wheat (US Dark Northern)	Unq	
Rubber (Jun)♥	56.50p	
Rubber (Jul)♥	56.75p	
Rubber (KL RSS No 1 May)	209.0m	-1.0
Coconut oil (Philippines)§	$405.0y	+2.5
Palm Oil (Malaysian)§	$377.5u	
Copra (Philippines)§	$260.0	+2.5
Soyabeans (US)	£178.0z	
Cotton "A" index	59.40c	-0.5
Wooltops (64s Super)	330p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. y-Jul/Aug u-Jun. z-Apr/May w-Jun ¶London physical. §CIF Rotterdam. ♦ Bullion market close. m-Malaysian cents/kg. * change from a week ago, provisional prices.

SUGAR – London FOX ($ per tonne)				
White	Close	Previous	High/Low	
Aug	301.00	302.90	303.00	299.00
Oct	292.00	294.00	294.00	289.60
Dec	291.60	292.70	292.00	
Mar	291.80		292.00	288.50

White 723 (1196) Paris- White (FFr per tonne): Aug 1614.05 Oct 1571.42

CRUDE OIL – IPE $/barrel				
	Latest	Previous	High/Low	
Jun	19.12	19.05	19.12	18.98
Jul	19.10	19.03	19.10	18.97
Aug	19.14	19.16	19.15	19.06
Sep	19.18	19.20	19.19	19.18
Oct	19.20	19.25	19.20	19.15
Nov	19.20	19.27	19.20	19.18
Dec	19.24	19.28	19.25	19.24
Jan	19.20		19.20	
IPE Index	19.21	19.18	19.21	

Turnover 16778 (27267)

GAS OIL – IPE $/tonne				
	Close	Previous	High/Low	
May	179.75	179.75	180.50	179.00
Jun	177.50	177.25	178.00	176.00
Jul	176.25	177.00	177.00	176.00
Aug	177.25	178.25	178.00	177.25
Sep	178.75	179.00	179.50	178.50
Oct	181.75	182.25	181.75	181.00
Nov	183.75	183.50	183.75	183.25
Dec	185.25	185.25	185.25	

Turnover 10784 (15457) lots of 100 tonnes

WOOL

Last week's government package of measures helpful to Australian wool producers facing uneconomically low prices was welcomed in the trade as a whole but seems to have done little to improve demand. Only small-scale orders are indicated and prices remain extremely competitive. The Australian Wool Corporation's market indicator was 4 cents higher at 395 cents a kg. on May 5, with finer margins gaining relatively well. The main wool market problem of over-supply remains.

COCOA – London FOX £/tonne				
	Close	Previous	High/Low	
May	672	662	686	668
Jul	689	681	690	676
Sep	704	694	705	690
Dec	722	715	723	710
Mar	742	733	740	728
May	753		761	
Jul	773	820	831	825

Turnover: 2967 (3750) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for May 5 715.74 (718.88) 10 day average for May 4 718.00 (717.63)

COFFEE – London FOX $/tonne				
	Close	Previous	High/Low	
May	846	890	850	845
Jul	869	880	878	863
Sep	857	892	872	857
Nov	862	904	874	865
Jan	868	911	882	870
Mar	882		902	883
May	880		903	880

Turnover: 3706 (2889) lots of 5 tonnes
ICO indicator prices (US cents per pound) for May 4: Comp. daily 52.71 (55.33) 15 day average 52.86 (51.93)

POTATOES – London FOX £/tonne				
	Close	Previous	High/Low	
Apr	94.5		98.0	93.8

Turnover 34 (127) lots of 20 tonnes.

SOYAMEAL – London FOX £/tonne			
	Close	Previous	High/Low
Aug	136.00		135.00
Oct	142.00		142.00

Turnover 20 (0) lots of 20 tonnes.

FREIGHT – London FOX $10/index point				
	Close	Previous	High/Low	
May	1550	1540	1550	1544
Jun	1441	1435	1441	1434
Jul	1300	1300	1305	1295
Oct	1390	1390	1395	1390
BFI	1561	1567	1561	

Turnover 389 (411)

GRAINS – London FOX £/tonne				
Wheat	Close	Previous	High/Low	
May	144.60	144.25	144.85	144.25
Jun	145.30	145.10	145.75	145.30
Nov	110.60	110.50	110.60	110.50
Jan	113.35	113.55	113.65	
Mar	115.90	116.00	116.20	
Barley	Close	Previous	High/Low	
Sep	106.75		106.75	
Nov	114.25		114.25	

Turnover: Wheat 89 (107), Barley 7 (13). Turnover lots of 100 Tonnes.

PIGS – London FOX (Cash Settlement) p/kg			
	Close	Previous	High/Low
May	113.5	113.5	

Turnover: 23 lots of 3,250 kg

LONDON METAL EXCHANGE	Close	Previous	High/Low	AM Official	Kerb close	Open Interest
(Prices supplied by Amalgamated Metal Trading)						
Aluminium, 99.7% purity ($ per tonne)						Total daily turnover 35,896 lots
Cash	1139-40	1126.5-7.5		1137.5-8.0		
3 months	1162-2.5	1149-9.5	1169/1148	1160-0.5	1168-8.5	181,970 lots
Copper, Grade A ($ per tonne)						Total daily turnover 56,124 lots
Cash	1164.5-5.5	1153.5-4.5	1154.5/1154	1153.5-4.0		
3 months	1186-6	1174-5	1188/1176	1174-5	1185-6	164,789 lots
Lead (£ per tonne)						Total daily turnover 2,897 lots
Cash	264-5	264.5-5.5		264.25-4.5		
3 months	274-4.25	274.5-5.0	277/274	273.75-4.0	276-6.5	20,542 lots
Nickel ($ per tonne)						Total daily turnover 3,866 lots
Cash	5945-55	5985-75		5885-95		
3 months	6015-25	6030-40	6020/5950	5980-85	6015-20	48,641 lots
Tin ($ per tonne)						Total daily turnover 2,788 lots
Cash	5575-85	5660-5		5565-6		
3 months	5630-40	5620-5	5640/5625	5630-5	5630-40	9,067 lots
Zinc, Special High Grade ($ per tonne)						Total daily turnover 7,251 lots
Cash	1004-5	1006.5-7.5		1005-5.5		
3 months	1024-4.5	1026-6.5	1039/1025	1025-6	1030-1	68,438 lots

LME Closing £/$ rate: SPOT: 1.5485 3 months: 1.5577 6 months: 1.5463 9 months: 1.5362

LONDON BULLION MARKET (Prices supplied by N M Rothschild)		
Gold (troy oz)	$ price	£ equivalent
Close	353.50-353.80	
Opening	352.05-352.25	
Morning fix	352.75	224.510
Afternoon fix	354.25	225.483
Day's high	357.60-357.50	
Day's low	352.10-352.50	

Loco Ldn Mean Gold Lending Rates (Vs US$)			
1 month	2.48	6 months	2.34
2 months	2.46	12 months	2.31
3 months	2.40		

Silver fix	p/troy oz.	US cts equiv.
Spot	270.40	425.20
3 months	274.35	428.25
6 months	278.50	431.75
12 months	288.50	438.05

GOLD COINS	$ price	£ equivalent
Krugerrand	352.00-355.00	224.00-228.00
Maple leaf	364.40-366.70	
New Sovereign	83.50-86.50	53.00-56.00

TRADED OPTIONS				
Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	Jun	Sep	Jun	Sep
1075	88	82	2	11
1100	67	71	4	17
1125	41	55	9	25
Copper (Grade A)	Calls		Puts	
1800	64	110	28	53
1850	38	84	52	76
1900	20	62	84	105
Coffee	Jul	Sep	Jul	Sep
850	42	66	32	49
900	23	45	63	78
950	11	30	101	114
Cocoa	Jul	Sep	Jul	Sep
700	17	38	28	38
725	10	26	42	48
750	5	20	58	60
Brent Crude	Jun	Jul	Jun	Jul
1850	91		2	7
1900	56		7	15
1950	26	16		33

New York

GOLD 100 troy oz.; $/troy oz.				
	Close	Previous	High/Low	
May	354.6	354.8	0	0
Jun	355.5	355.7	358.9	354.6
Jul	356.2	356.4	0	0
Aug	357.1	357.1	360.2	356.0
Oct	358.3	358.5	360.5	358.4
Dec	359.7	359.9	362.5	358.9
Feb	361.2	361.4	362.4	362.4
Apr	362.7	362.9	364.0	362.0
Jun	364.2	364.4	364.0	364.0

PLATINUM 50 troy oz; $/troy oz.				
	Close	Previous	High/Low	
Jul	380.1	377.3	380.5	375.0
Oct	378.8	375.8	378.5	375.0
Jan	376.0	375.0	375.0	374.5
Apr	377.7	374.7	377.0	373.0

SILVER 5,000 troy oz; cents/troy oz.				
	Close	Previous	High/Low	
May	429.0	426.6	430.5	424.5
Jun	430.2	427.8	429.5	429.0
Jul	431.5	429.2	433.5	426.0
Sep	434.3	432.0	437.0	429.5
Dec	438.4	436.1	440.0	433.0
Jan	438.9	436.6	440.0	439.0
Mar	442.8	440.5	445.0	438.0
May	445.5	443.4	444.5	444.5
Jul	448.9	448.7	445.0	444.0
Sep	452.4	450.1	0	0

HIGH GRADE COPPER 25,000 lbs; cents/lbs				
	Close	Previous	High/Low	
May	80.95	81.15	82.05	80.95
Jun	81.20	81.40	81.75	81.20
Jul	81.55	81.70	82.70	81.45
Aug	81.90	82.05	0	0
Sep	82.20	82.40	83.20	82.25
Oct	82.50	82.70	83.10	83.10
Nov	82.85	83.05	0	0
Dec	83.15	83.35	84.20	83.05
Jan	83.40	83.60	0	0
Feb	83.65	83.85	0	0

CRUDE OIL (Light) 42,000 US galls $/barrel				
	Latest	Previous	High/Low	
Jun	20.47	20.39	20.50	20.29
Jul	20.65	20.56	20.67	20.48
Aug	20.77	20.67	20.79	20.60
Sep	20.77	20.72	20.78	20.68
Oct	20.81	20.73	20.81	20.65
Nov	20.80	20.74	20.80	20.70
Dec	20.76	20.73	20.75	20.68
Jan	20.71	20.71	20.71	20.71
Feb	20.70	20.68	20.73	20.70
Mar	20.66	20.65	20.66	20.55

HEATING OIL 42,000 US galls; cents/US galls				
	Latest	Previous	High/Low	
Jun	55.95	55.58	56.05	55.20
Jul	56.40	56.03	56.45	55.85
Aug	57.00	56.63	57.00	56.25
Sep	57.95	57.63	58.00	57.25
Oct	59.00	58.58	58.85	58.45
Nov	59.80	59.48	59.70	59.30
Dec	60.65	60.33	60.75	60.20
Jan	60.85	60.75	60.85	60.85
Feb	60.75	60.50	60.75	60.40
Mar	59.50	59.10	59.50	59.50

COCOA 10 tonnes;$/tonnes				
	Close	Previous	High/Low	
May	910	901	910	899
Jul	940	931	949	921
Sep	966	959	972	946
Dec	1004	997	1008	987
Mar	1033	1027	1035	1033
May	1059	1052	0	0
Jul	1077	1070	0	0
Sep	1106	1098	0	0
Dec	1135	1128	1115	1106
Mar	1168	1161	1163	1155

COFFEE "C" 37,500lbs; cents/lbs				
	Close	Previous	High/Low	
May	57.25	58.05	58.20	55.90
Jul	57.85	58.90	59.25	58.25
Sep	59.55	60.55	60.90	58.00
Dec	62.25	63.50	63.30	60.70
Mar	64.75	65.70	65.80	63.50
May	68.00	67.20	67.00	67.00
Jul	67.55	69.00	67.00	57.40
Sep	69.25	70.80	0	0

SUGAR WORLD "11" 112,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Jul	12.28	12.14	12.35	11.95
Oct	11.95	11.91	12.04	11.75
Mar	11.19	11.15	11.30	11.06
May	11.15	11.07	11.24	11.10
Jul	11.10	11.08	11.10	11.08

COTTON 50,000; cents/lbs				
	Close	Previous	High/Low	
May	59.99	58.60	59.60	59.25
Jul	61.23	59.84	61.50	60.10
Oct	61.58	60.71	61.85	61.10
Dec	60.85	60.37	61.15	60.50
Mar	61.93	61.50	61.85	61.75
May	62.63	62.15	63.00	62.45
Jul	63.23	62.80	63.50	63.50
Oct	63.00	62.57	0	0

ORANGE JUICE 15,000 lbs; cents/lbs				
	Close	Previous	High/Low	
May	89.50	91.50	92.00	89.50
Jul	92.05	94.25	95.20	92.00
Sep	94.75	97.25	98.00	94.75
Nov	97.25	99.55	100.00	97.25
Jan	100.05	102.55	102.50	100.05
Mar	102.25	104.05	104.50	103.25
May	102.25	104.05	0	0
Jul	102.25	104.05	0	0
Sep	102.25	104.05	0	0

INDICES

REUTERS (Base:September 18 1931 = 100)			
May 5	May 4	mnth ago	yr ago
1543.6	1567.7	1666.1	1587.4

DOW JONES (Base: Dec. 31 1974 = 100)				
	May 4	May 3	mnth ago	yr ago
Spot	119.83	-	121.55	116.56
Futures	122.84	-	125.22	118.65

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel				
	Close	Previous	High/Low	
May	599/0	599/6	595/2	599/0
Jul	595/4	591/2	597/6	590/4
Aug	595/6	591/4	598/0	591/0
Sep	595/4	590/2	598/0	590/2
Nov	598/2	592/6	600/4	592/0
Jan	605/0	599/4	606/4	599/0
Mar	611/4	606/0	612/6	611/4
May	615/0	609/4	616/0	611/4

SOYABEAN OIL 60,000 lbs; cents/lb				
	Close	Previous	High/Low	
May	20.79	20.81	21.00	20.75
Jul	20.99	21.01	21.25	20.97
Aug	21.10	21.12	21.36	21.09
Sep	21.22	21.24	21.47	21.22
Oct	21.31	21.35	21.57	21.31
Dec	21.55	21.59	21.81	21.53
Jan	21.62	21.66	21.80	21.69
Mar	21.82	21.87	22.05	21.88

SOYABEAN MEAL 100 tons; $/ton				
	Close	Previous	High/Low	
May	188.6	187.1	189.0	188.8
Jul	189.3	187.6	189.5	187.3
Aug	189.4	187.7	189.5	187.5
Sep	189.5	188.0	189.8	187.9
Oct	189.6	188.3	190.0	188.2
Dec	191.0	189.2	191.5	189.1
Jan	191.5	190.0	191.5	191.5
Mar	191.8	190.6	192.0	191.5

MAIZE 5,000 bu min; cents/56lb bushel				
	Close	Previous	High/Low	
May	227/0	227/6	227/2	225/0
Jul	230/2	231/0	231/0	229/2
Sep	234/4	235/2	235/2	233/4
Dec	239/2	239/2	240/2	238/0
Mar	246/0	245/6	248/6	244/2
May	250/0	249/6	250/4	249/4
Jul	254/0	253/4	254/2	253/0
Dec	249/4	243/0	249/4	248/4

WHEAT 5,000 bu min; cents/60lb-bushel				
	Close	Previous	High/Low	
May	349/4	350/4	354/0	348/4
Jul	292/0	291/2	293/6	291/2
Sep	295/4	294/4	296/4	294/2
Dec	306/2	305/4	307/0	305/0
Mar	311/6	310/4	312/6	310/6
Jul	311/4	310/0	311/4	310/0

LIVE CATTLE 40,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Jun	76.225	76.975	76.950	76.150
Aug	73.275	73.925	73.825	73.175
Oct	73.875	74.300	74.325	73.825
Dec	74.150	74.550	74.550	74.100
Feb	73.650	74.025	74.100	73.475
Apr	74.525	74.975	74.950	74.400
Jun	71.650	72.100	72.100	71.500

LIVE HOGS 40,000 lb; cents/lbs				
	Close	Previous	High/Low	
Jun	52.075	52.550	52.650	52.050
Jul	50.750	51.050	51.250	50.700
Aug	48.400	48.575	48.850	48.350
Oct	42.950	43.150	43.400	42.900
Dec	44.225	44.150	44.500	44.100
Feb	44.150	44.125	44.350	44.100
Apr	42.950	42.900	43.000	42.950
Jun	48.400	48.150	48.500	48.300

PORK BELLIES 40,000 lbs; cents/lb				
	Close	Previous	High/Low	
May	43.900	42.825	44.250	42.800
Jul	43.650	43.175	44.550	43.175
Aug	41.375	41.025	42.450	41.050
Feb	41.425	41.400	42.200	41.350
Mar	40.825	40.825	41.400	0
May	41.250	41.250	0	0

Rights issue helps to unsettle equities

By Terry Byland,
UK Stock Market Editor

HOPES for a near term rally in UK equities were punctured yesterday when a £404m rights issue by Royal Insurance exposed both the institutions' lack of cash and their sensitivity to corporate news. Selling of the Footsie futures contract quickly drove the stock market below the FT-SE 2,800 mark so recently regained and a late rally still left the Index down by 16.1 at 2,796.5.

Concern over how long it will take before the economic recovery shows itself in company results and dividends returned following disappointing trading reports from, among others, BAT Industries, Trafalgar House, and Philips, the Dutch electronics and consumer group. Although Wall Street held up well overnight and was only 2.35 Dow points off as London closed yesterday, worries over the apparent check in the US economic recovery continued to plague the UK market.

However, the significant factor was again the relative lack of volume in equity trading. The day's Seaq total improved to 539m shares from 422.8m on the previous day. But Tuesday's retail, or customer-originated, business in equities only just topped the £1bn mark now seen by the London securities community as the minimum acceptable daily figure.

Equities opened lower and an attempt to rally was quickly swept aside when the June future contract on the FT-SE Index opened. The Footsie 2,800 mark was lost at mid-morning and further selling drove the Index down to the day's low of 2,786.4, down 26.2.

Selling pressure fell mostly on the insurance sector as investors weighed the implications of Royal's rights move and trading statement, which included an estimate of £5m losses on last week's terrorist bombing in the City of London.

But shares drifted lower across the wider range of the stock market. Textiles and electronics were among the weaker sectors.

While some strategists took comfort from the market's success in holding in the 2,790 area, others warned that yesterday's session showed how vulnerable share prices are at the moment. With institutional funds heavily committed to the sale of the remaining Government holding in BT, to the demerger of Zeneca from ICI, and also to the monthly funding programme in UK gilt-edged stock, there is little cash to spare.

This would leave the stock market vulnerable to any renewal of the *rights issue* flow; some sector analysts fear that Royal's move could spur other composite insurers to follow.

A slight weakening in the pound failed to help the overseas earning stocks, whose export pricing has been threatened by sterling's firmness. Strategists now fear that UK interest rates may not be reduced again unless the Bundesbank opens the way by cutting German rates sharply, or unless sterling's strength forces the UK authorities to reduce rates.

The downward pressures on the Footsie stocks imposed by selling of the Footsie futures was matched by a setback in second line issues. The FT-SE Mid 250 Index, which is compiled of a wide range of non-Footsie as well as Footsie shares, fell 14.4 points to 3119.1. Trading volume in the non-Footsie issues made up around 61 per cent of the day's total, in line with average levels for the past few months.

TRADING VOLUME IN MAJOR STOCKS

Based on the trading volume for a selection of Alpha securities dealt through the SEAQ system yesterday until 4.30pm. Trades of one million or more are rounded down. † Indicates an FT-SE 100 Index constituent.

Account Dealing Dates

*First Dealings:		
Apr 19	May 10	May 24
Option Declarations:		
May 6	May 20	Jun 3
Last Dealings:		
May 7	May 21	Jun 4
Account Day:		
May 17	Jun 1	Jun 14

*New time dealings may take place from 8.30am two business days earlier.

Heavy trade in Vodafone

NEWS that last month saw the highest number of net new connections to **Vodafone's** cellular radio network for three years triggered a strong rise in Vodafone shares. They closed at the end of a busy session, during which turnover expanded rapidly to 6.3m shares, 6 higher at 380p, easily outpacing the telecoms sub-sector and the wider market indices.

Vodafone said it was the first time since the LowCall tariff was launched last October that new connections had exceeded net new LowCall connections. LowCall offered subscribers cheaper monthly subscriptions charges but higher call rates.

Analysts were impressed with the subscriber figures. Mr Marshall Whiting, telecoms specialist at Swiss Bank Corporation, described the numbers as "very good; but so were last month's and those of the previous month." He added that Vodafone's progress had "merely been interrupted by the recession; the shares are a long term buy."

Royal rights

The market was surprised at the timing, but not the substance, of the £404m rights issue which accompanied Royal Insurance's first quarter figures.

Royal has long been seen by the market as one of the prime candidates to raise money via a rights issue, but analysts had expected the group to wait until it had achieved profits for at least two quarters before asking its shareholders for cash.

The deeply-discounted terms of the rights issue was generally well received in the market, where Royal shares closed a net 9 weaker at 307p, having fallen to 301p at one point. Turnover totalled 5.5m, the highest since mid-March. But across the wider range of the market, the cash call unsettled sentiment.

One leading analyst described Royal's first quarter figures as "surprisingly good", and said they would have been even better but for the country-wide floods in January. He said the rights capital would enable the company to take advantage of the opportunities caused by the shrinkage of the UK market's underwriting capacity.

There were worries in the sector that Royal's move might be followed by a similar fund-raising from General Accident, whose shares fell 6 to 554p.

BAT doubts

Tobacco and insurance group **BAT Industries** fell sharply yesterday in spite of first-quarter figures well above the consensus forecast. Turnover of 4.8m shares was unusually heavy and the stock was the most actively traded in the options market.

The group's shares dropped 23 to 847p, after it announced a profit of £360m, up by 40 per cent and some £10m above the average expectation. However, tobacco trading profits of £220m were slightly below last year's first quarter, yet represented the period before US rival Philip Morris launched a cigarette price war. Also, £46m of the gains were purely currency-related and it transpired that the latest IRA bomb in central London will cost BAT around £25m. S.G. Warburg, which has taken a dim view of the stock recently, maintains its full-year forecast of £1,828m, but believes dividend growth might hit 8 per cent and short-term underperformance will be countered by a rally later in the year.

Redland upgraded

The best performance in the FT-SE100 came from Redland, the building materials group, after the top-rated Kleinwort Benson building sector research team lifted its earnings estimates for the company and upgraded its recommendation on the stock from "hold" to "buy".

At the close, Redland shares were 18p, or 3.85 per cent, higher at 468p, after relatively high turnover of 2.7m shares. Kleinwort was said to have lifted its 1993 pre-tax profits figures to £256m from a previous £225m, and its 1994 estimate to £310m from £270m.

Shell Transport attracted a fresh burst of strong domestic buying interest yesterday, with two of the leading London-based securities houses said to have been aggressive supporters of the shares. They closed a further 6 higher at 582p, after good turnover of 5.6m shares.

BP was not left behind, and settled 2 higher at 296p, stimulated by renewed demand prompted by NatWest Securities and also by sustained US buying interest. BP reports first-quarter figures this morning. NatWest is forecasting historic cost net income, including stock gains or losses of £230m, against last time's £51m loss. On a replacement cost basis, the broker is looking for net income of £220m against £95m. SGST, the French-owned broker, forecasts, pre-exceptional items, historic net income of £190m, or on a replacement cost basis, net income of £172m.

The call by the electricity industry regulator – Offer – for the generators to account for their involvement in recent electricity pool price rises, unsettled the generators and also affected sentiment in British Gas. The latter eased 1¼ to 304p, while National Power dipped 2 to 321p and PowerGen 4 to 324p.

Wellcome shares lost 11 to 728p on reports of a new rival to its AIDS drug AZT. Verex Laboratories of the US said preliminary tests showed its version of AZT could be more potent, longer-lasting and less toxic. Wellcome said it was looking into the legality of the Verex claim.

SmithKline Beecham fell 12 to 469p in the 'A's, in spite of an announcement that it is to co-promote a drug for US group *Adria Laboratories. US* investors appeared to be selling pharmaceuticals stocks and also continued unenthusiastic on ICI, which slipped 8½ to 1264½p.

The world's biggest mining group RTZ fell 14 to 631p as it held its annual meeting yesterday. The group said it expected no decisive improvement in operating results until 1994 and chart analysts were predicting little support for the stock before 550p. The shares have suffered recently from a weak copper price.

A two-way pull in MFI saw the shares see-saw in heavy trade before finally settling 2 adrift at 137p. Turnover was a hefty 13m. BZW, the latest broker to return from visiting the discount furniture group, downgraded profit forecasts and reiterated its negative stance. Hoare Govett and UBS were said to be more positive.

Shares in Burton Group came off a penny to 78½p following the placing of a line of 7m at 78p by Lehman Brothers.

In a quiet food retail sector, Asda had its short-term debt upgraded by US credit agency Moody's. The shares closed a half-penny down at 69p. Tesco added the same to 218p, with some talk that one leading securities house had turned positive.

Banana importer Geest collapsed following a profits warning, the shares off 68 at 368p after touching 328p.

Coats Viyella shed 6 to 231p ahead of its annual meeting today.

Sports clothing group Campari rebounded 12 to 145p following the slide prompted by Tuesday's profits warning.

Lucas Industries rose 4 to 140p on unusually heavy trade of 6.3m shares amid renewed talk of a possible bid for the company.

One analyst argued that the company's poor profit performance made it a viable bid candidate. The speculation has surrounded the company for some time with BTR being seen as a likely predator. BTR shares fell 5 to 592p.

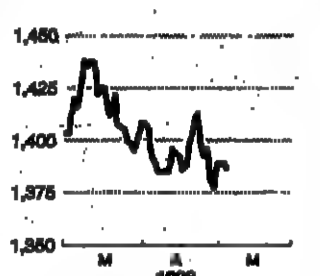
Trafalgar House, which reported a loss of £97.6m for the first-half compared to a profit of £54m previously, lifted 3 to 95p as the company signalled an upturn in property and increased investment in the Far East. Also board changes and general recovery prospects helped sentiment.

More details of the BT III flotation, plus news that the company has terminated discussions with Electronic Data Systems, the US computing services group, failed to trigger any substantial flurry of interest in BT although the shares rallied from an early 401p to close only a fraction easier on balance at 404¼p. Turnover was a good 6.3m.

MARKET REPORTERS:
Christopher Price,
Peter John,
Steve Thompson.

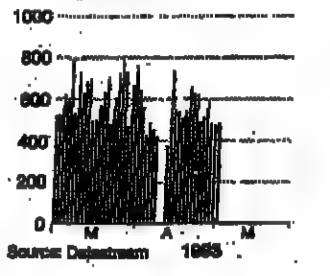
■ Other statistics, Page 21.

FT-A All-Share Index



Equity Shares Traded

Turnover by volume (million)
Excluding: Intra-market business & Overseas turnover



Source: Datastream 1993

FT-SE Actuaries Share Indices — THE UK SERIES

FT-SE 100	FT-SE MID 250	FT-A ALL-SHARE
2796.5 -16.1	3119.1 -14.4	1381.77 -7.35

Hourly movements

FT-SE Actuaries 350 Industry Baskets

LONDON SHARE SERVICE

BRITISH FUNDS

OTHER FIXED INTEREST

Continued on next page

EQUITY FUTURES AND OPTIONS TRADING

TRADING in the derivatives markets continued flat yesterday with the futures ominously breaching new resistance levels, writes Christopher Price.

The June contract opened at what was to be its highest level of the session – 2,815 – before buyers moved in and the contract was quickly sold down. Although June found some support at the 2,800-mark – a renowned technical support level – it then proceeded to breach that to head further southwards.

Dealers said that sentiment in the futures continued largely negative, not helped by the Royal Insurance rights issue and the feeling that the market is short of liquidity.

June struck 2,784, its low of the day, at around lunchtime, before some buyers began to be seen, and the contract began a slow recovery.

Even so, it never gained parity with its fair value level of around 7, instead trading at a 3-5 point discount for most of the day.

June closed at 2,796, 23 down on the previous close and 6 points off its fair value. Turnover was 8,195 contracts, some 250 down on the previous session.

In the traded options market, the total turnover of 27,744 was well up on Monday's closing figure. BAT Industries topped the stock list with 2,831 traded, followed by bid favourite United Biscuits on 2,037, Boots on 1,811 and Glaxo on 1,359.

NEW HIGHS AND LOWS FOR 1993

FINANCIAL TIMES EQUITY INDICES

LONDON SHARE SERVICE

AMERICANS

Notes	Price $	+ or -	1993 high	1993 low	Mkt Cap£m	Yld Gr's
Abbott Labs	17¾xd	-⅛	20⅜	15⅝	14,866	2.4
Allegheny & W ♥	494p	-14	571p	399p	258.7	3.8
Amdahl	303p	-6	591p	303p	340.3	2.1
Amer Cyanamid	34¼	+¼	38⅝	31¼	3,087	3.0
Amer Express	17⅞xd	-⅛	19½	14⅞	8,574	3.5
Amer T & T	38⅛xd	+⅛	40⅞	33⅝	48,281	2.3
Ameritech	48½	—	52¼	45	21,235	4.8
BankAmerica	29⅝xd	+⅛	38⅛	27⅝	10,436	2.3
Bankers NY	48¼xd	+⅛	51⅜	42⅞	3,712	4.2
Bell Atlantic	33	-⅛	39⅞	32¼	[illegible]	5.1
BellSouth	33¼	—	39⅞	33¼	[illegible]	5.3
Bethlehem Steel ♥	12⅛xd	-⅛	13¼	10	1,130	-
Bowater	1338pxd	-12	1682p	1335p	484.8	1.9
CPC	27⅝xd	+⅛	34⅞	28	[illegible]	2.9
Cadiz Land Inc ♥	63½p	—	115p	53p	-	-
California Engy	1358p	—	1479p	1080p	247.2	-
Chase Manhattan	19⅛xd	+⅛	24½	17⅞	3,082	3.9
Chrysler	26⅛xd	-⅛	29⅞	21⅛	7,778	1.4
Citicorp	16⅛xd	+⅛	20⅛	13⅞	6,602	-
Colgate-Palm	33⅞xd	+⅛	45⅞	35¼	[illegible]	2.0
Conrl Bank	1585p	+35	1877p	1278p	1,601	2.4
Dana	31½xd	—	34⅛	29⅝	1,440	3.2
Data General	597p	-7	951p	593p	184.7	-
Dexter Inds ♥	125p	—	148p	109p	-	-
Dun & Brad	37⅛	-⅛	42⅞	37⅛	6,617	4.2
Eaton	58⅛	-⅛	58⅞	50⅞	1,957	2.4
Echlin	15½xd	+⅛	18⅞	15⅛	888.4	2.8
FPL	24⅛xd	+⅛	27⅞	23¼	4,394	6.4
Ford Motor	35⅛xd	+⅛	38⅛	28⅛	17,450	1.8
Gen Elect	56⅛xd	-1⅛	62⅛	53⅞	49,486	2.8
General Host ♥	591p	-7	723p	566p	-	3.9
Gillette	34⅛xd	+⅛	42⅞	31⅛	7,485	1.6
Hasbro	20⅞	—	20⅞	20⅞	1,819	0.7
Honeywell	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

CANADIANS

[illegible]

BANKS

[illegible]

BREWERS & DISTILLERS

[illegible]

BUILDING MATERIALS

[illegible]

BUILDING MATERIALS - Cont.

[illegible]

BUSINESS SERVICES

[illegible]

CHEMICALS

[illegible]

CONGLOMERATES

[illegible]

CONTRACTING & CONSTRUCTION

[illegible]

ELECTRICALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONICS

[illegible]

ENGINEERING-AEROSPACE

[illegible]

ENGINEERING-GENERAL

[illegible]

ENGINEERING-GENERAL - Cont.

[illegible]

FOOD MANUFACTURING

[illegible]

FOOD RETAILING

[illegible]

HEALTH & HOUSEHOLD

[illegible]

HOTELS & LEISURE

[illegible]

HOTELS & LEISURE - Cont.

[illegible]

INSURANCE BROKERS

[illegible]

INSURANCE COMPOSITE

[illegible]

INSURANCE LIFE

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

MERCHANT BANKS

OIL & GAS - Cont.

PACKAGING, PAPER & PRINTING - Cont.

TELEPHONE NETWORKS

MINES - Cont.

METALS & METAL FORMING

TEXTILES

PROPERTY

MISCELLANEOUS

INVESTMENT COMPANIES

OTHER FINANCIAL

TRANSPORT

MEDIA

WATER

OTHER INDUSTRIALS

SOUTH AFRICANS

STORES

MOTORS

PLANTATIONS

MINES

PACKAGING, PAPER & PRINTING

OIL & GAS

	Price	+ or -	1993 high	low	Mkt Cap£m	Yld Gr's
Glencar Expl IE ‡‡	8	—	8	5	1.46	-
Greenwich Res	13½	+¼	16½	5	12.0	-
Hemlo Gold C$	63⅝	-⅛	85½	63½	820.1	1.7
Ivernia West IE ‡‡☐	49	—	67	31	24.8	-
Kenmare	12	—	13½	6	11.5	-
Malinga Res	16	+2	25½	14	1.77	-
Navan Res IE	37	+7	37	25	4.95	-
5pc Ln Notes	30¼	—	34	25	0.15	-
Oryx Gold	62½	—	71	47	-	-
‡‡Ouzco Res IE	3½	—	3½	3⅛	0.24	-
RTZ	631	-14	709	628	6,335	4.1
Vizcano	5¼	—	6¼	2⅛	3.06	-

GUIDE TO LONDON SHARE SERVICE

Company classifications are based on those used for the FT-Actuaries Indices and FT-Actuaries World Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid- prices.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Estimated price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation, excluding exceptional profits/losses and unrelieved ACT where applicable. Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- ☐ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ).
- ● "Tap Stock"
- * Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ◆ Figures or report awaited
- Not officially UK listed; dealings permitted under rule 535(4)(a)
- Free annual/interim report available, see details below.
- USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially UK listed; dealings permitted under Rule 535(2)
- Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue.
- Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- Unregulated collective investment scheme.

a Yield based on annualised dividend. b Figures based on prospectus or other official estimates. c Cents. f Flat yield. g Assumed dividend yield after rights issue. h Assumed dividend yield after scrip issue. n Rights issue pending. q Earnings based on preliminary figures. s Dividend yield excludes a special payment. t Indicated dividend yield, p/e ratio based on latest annual earnings. u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings. v Not subject to ACT. z Dividend yield includes a special payment. E Auction basis. F Yield based on prospectus or other official estimates for 1994-95. G Assumed yield after pending scrip and/or rights issue. H Yield based on prospectus or other official estimates for 1993. K Yield based on prospectus or other official estimates for 1992-93. L Estimated annualised yield, p/e based on latest annual earnings. M Yield based on prospectus or other official estimates for 1993-94. N Yield based on prospectus or other official estimates for 1992. P Figures based on prospectus or other official estimates for 1994. R Forecast annualised yield, p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend yield to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xi ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1235 a year for each security shown, subject to the Editor's discretion

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AUTHORISED UNIT TRUSTS

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (✓) - 0001 to 1100 hours; (♦) - 1101 to 1400 hours; (▲) - 1401 to 1700 hours; (#) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set at the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH Tel: 071-379-0444.

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INSURANCES

OTHER UK UNIT TRUSTS

FT MANAGED FUNDS SERVICE

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	Bid Price	Offer Price	+ or -	Yield Gross
Prudential Assurance Co				
071-405 9222				
Prufund				
Managed May 5	290.5	305.9	+0.9	-
Prudential Corporate Pension Funds				
071-548 3281				
Prudential Managed Funds				
Pru-Linked Retirement Plan				
Prudential Pensions Investment Account				
Money Purchase Plan				

	Bid Price	Offer Price	+ or -	Yield Gross
Scottish Amicable - Contd.				
Others				
Capital Guarantee Bond	97.3	102.5	-0.60	-
Scottish Equitable Life Assce. Soc.				
28 St Andrew Sq, Edinburgh 031-556 9101				
Mixed	219.0	230.5		-
UK Equity	211.2	222.4	-0.8	-
International	219.9	231.5	+0.4	-
American	225.4	237.3	+0.2	-
European	206.2	217.1	+0.3	-
Japan	237.3	250.4	+1.5	-
Pacific	301.6	317.7	+1.4	-
Technology	283.8	298.7	+1.3	-
Fixed Interest	166.4	175.2	+0.4	-
Indexed Linked	148.9	156.7		-
Foreign Bond/Currency	211.6	224.8	+1.7	-
Cash	171.540	180.330	+0.027	-
Ethical	116.5	122.7	-0.2	-
Pens Mixed	624.9	657.8	-1.0	-
Pens UK Equity	708.3	743.5	-4.8	-
Pens International	671.3	706.7	+0.9	-
Pens American	225.9	237.7	+0.4	-
Pens European	237.9	250.4	+1.0	-
Pens Japan	281.6	296.4	+1.8	-
Pens Pacific	336.7	354.5	+0.3	-
Pens Fixed Interest	331.9	349.3	+1.2	-
Pens Index Linked	184.2	193.9	-0.1	-
Pens Cash	273.630	287.460	+0.042	-
Pens Property	216.98	228.39		-
Pens Ethical	148.4	156.2	-0.2	-
Edinburgh Inv	325.6	342.9	-1.2	0
Baillie Gifford Japan	229.3	241.4		-
Scottish Life Investments				
19 St Andrew Square, Edinburgh 031-225 2211				

OFFSHORE INSURANCES

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

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JERSEY (REGULATED)(**)

	Bid Price	Offer Price	+ or -	Yield Gross
Barclays Intl Funds				
Asian Selection Funds				
China	$9.859	10.167	—	0.0
Hong Kong	$28.735	30.175	—	0.0
Indonesia	$9.304	9.794	—	0.4
Korea	$11.133	11.719	—	0.0
Malaysia	$17.441	18.313	—	0.0
Philippines	$17.984	18.831	—	0.0
Singapore	$12.137	12.778	—	0.0
Thailand	$19.494	20.889	—	0.0
South East Asia	$24.508	25.783	—	0.0
US Dollar Liquidity	$9.561	10.029	—	0.0
Cater Allen Investment Management (CI)				
CA Gilt Income	25.86	6.12xd	-0.01	10.34
CA Equity Gwth	24.58	4.95	—	2.32
Citibank (CI) Ltd "Citifunds"				
Short term Investment Funds				
Irish £ May 6		133.0830	+0.313	—
Equity Funds				
Japan Equity Apr 29		$9.7800		—
US Eq High May 4		$19.7976	+0.036	—
US Eq Tech May 4		$22.8512	-0.067	—
Chinese May 4		$30.4005	+0.055	—
Bond Funds				
HYB (A) May 4		383709.470	+154.59	—
Special Assets (B) Apr 1		FFr11275.473	+41.02	—
Citibank N.A.				
Libra 2000 Feb 28		999.62	-2.45	—
Libra 2000 4x0 Feb 28		699.62	-2.45	—
Coutts & Co (Jersey) Fund Managers Ltd				
Coutts Money Market Fund Ltd				
Dollar Class		$35.4939		—
Sterling Class		£27.5145		—
D-Mark Class		DM58.0168		—
Japanese Yen Class		Y6036.4667		—
Ashburton Replica Portfolio Ltd				
Ashburton Replica Ptfio Ltd £	11.63	12.10	—	—
Ashburton Replica Ptfio Ltd $	$10.92	11.34	—	—

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr%
CMI Asset Management (Luxembourg) SA						
200 route d'Arlon, L-1150 Lux 010 352 458825						
CMI Managed Portfolio Investment Company (s)						
Safeguard Portfolio F.		$-	1.220	1.299	+0.005	—
Growth Portfolio F.		$-	1.095	1.169	-0.005	—
Enterprise Portfolio F.		$-	1.047	1.115	-0.007	—
CMI Global Network Fund (s)						
Australasian Equity		A$-	12.946		-0.03	—
Benelux Equity		Dfl-	21.068		-0.06	—
Canadian Equity		C$-	10.011		-0.005	—
SE Asia Equity		$-	13.089		+0.127	0.05
French Equity		FFr-	90.133		-0.83	0.04
German Equity		DM-	17.842		-0.051	—
Iberian Equity		Pta-	718		-1	0.01
Irish Equity		£I-	4.382		-0.005	—
Italian Equity		L-	7802		-56	—
Japanese Equity		Y-	1377			—
Nordic Equity		SKr-	44.250		+0.26	—
Swiss Equity		SFr-	19.495		-0.05	—
UK Equity		£-	6.405		-0.04	1.11
US Equity		$-	13.715		-0.047	0.95
Japan Index Tracking		Y-	934		+10	—
UK Eqy Index Tracking		£-	6.031		-0.13	2.23
US Eqy Index Tracking		$-	12.148		-0.06	1.18
German Bond		DM-	23.224		+0.013	6.21
Japanese Bond		Y-	1650		+1	4.20
Swiss Bond		SFr-	22.321		+0.005	4.37
UK Bond		£-	6.297		-0.050	8.10
US Bond		$-	11.932		-0.005	6.04
Stlg Currency Reserve		£-	5.0380d		+0.005	7.18
US Dlr Currency Reserve		$-	10.0320d		-0.003	2.08
Commercial Union Luxembourg SA (m)						
41 Ave de la Gare L-1611 010 352 4030081						
Commercial Union Privilege Portfolio						
Equity Funds						
Monthly Income		£-	1.0740	1.1408	—	6.9
Private Client Mgd		£-	1.1660	1.2439		—
Far Eastern Gwth		$-	2.0316	2.1613	+0.026	—
American Gwth		$-	2.2830	2.4287	+0.005	—
European Gwth		Ecu-	1.8297	1.9465	+0.002	—
Japanese Gwth		Y-	147	156		—
UK Growth		£-	1.0654	1.1334	-0.01	—
Italian Gwth		L-	1525	1622	-6	—
Spanish Gwth		Pta-	160	170		—
Dutch Gwth		Dfl-	4.9415	5.2568	+0.005	—

[illegible]

LUXEMBOURG (SIB RECOGNISED)

[illegible]

LUXEMBOURG (REGULATED)(**)

[illegible]

SWITZERLAND (SIB RECOGNISED)

[illegible]

OTHER OFFSHORE FUNDS

[illegible]

MANAGED FUNDS NOTES

[illegible]

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Funds flow out of the D-Mark

THE D-MARK softened against most European currencies yesterday as dealers continued to show concern about the speed with which the Bundesbank is now easing monetary policy, *writes James Blitz.*

In recent days, dealers have claimed to see funds flowing out of the D-Mark into countries whose interest rates are not dissimilar to those in Germany, but whose fundamental economic conditions are a good deal better.

The recent fall in German bond prices was a particularly strong indication that dealers think that the weekly cuts in German rates threaten higher inflation.

Yesterday, the Swiss franc performed well against the German currency, testing the SFr0.90 level against the D-Mark before closing at SFr0.897 from a previous SFr0.902.

With 3-month D-Marks now at around 7.63 per cent, the short term rates for the Swiss Franc, at around 5 per cent, look more attractive than they have in the past.

The French franc also performed strongly against the D-Mark, amid speculation that the French authorities might be able to cut their official interest rates again.

The franc closed at FFr3.372 to the D-Mark from a previous FFr3.373. Three-month French franc interest rates also came more-or-less in line with 3 month D-Marks, one of the clearest signs yet of the market's new-found confidence in the French currency. Investors in the French currency had demanded a 5 percentage point premium above D-Marks earlier this year.

Both the Belgian and Dutch currencies have also strengthened in recent days, widening their differential above the D-Mark in the exchange rate mechanism grid.

Last night, the Dutch guilder was some 32 basis points above the D-Mark in the grid, compared to the Dutch government's informal band of 50 basis points. Mr Nigel Rendell, international economist at James Capel in London, believes the Dutch will be forced to cut rates if this trend continues.

Two currencies that profited a little less from this trend were sterling and the Italian lira. The pound was only slightly stronger the D-Mark amid continuing fears that the UK government may face a humiliating defeat in the House of Commons on the Maastricht bill. The pound closed at DM2.4750 from a previous DM2.4675.

The lira momentarily weakened after news that Moody's rating agency had downgraded Italy's long term currency debt. However, so much bad news has been discounted over the lira that the move down was contained. The lira closed stronger on the day at L928.9 from a previous L933.5

The dollar was slightly stronger against the D-Mark following an unexpected 4 basis point cut in the Bundesbank's repo rate to 7.71 per cent. The dollar closed at DM1.5780 from a previous DM1.5710.

£ IN NEW YORK

May 5	Latest	Previous Close
£ Spot	1.5650 - 1.5660	[illegible]
1 month	0.39-0.38pm	0.40-0.39pm
3 months	1.17-1.15pm	1.17-1.15pm
12 months	4.19-4.29pm	4.27-4.20pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	May 5	Previous
8.30 am	[illegible]	80.7
9.00 am	[illegible]	80.6
10.00 am	[illegible]	80.6
11.00 am	[illegible]	80.7
Noon	[illegible]	80.7
1.00 pm	[illegible]	80.7
2.00 pm	[illegible]	80.6
3.00 pm	[illegible]	80.6
4.00 pm	[illegible]	80.6

CURRENCY RATES

May 5	Bank rate %	Special Drawing Rights	European Currency Unit
[illegible]	[illegible]	[illegible]	[illegible]

§ Bank rate refers to central bank discount rates. These are not quoted by the UK, Spain and Ireland. † European Commission Calculations. * All SDR rates are for May 4

CURRENCY MOVEMENTS

May 5	Bank of England Index	Morgan Guaranty Changes %
[illegible]	[illegible]	[illegible]

Morgan Guaranty changes: average 1980-1982=100. Bank of England (Base Average 1985=100). *Rates are for May 4

OTHER CURRENCIES

May 5	£	$
Luxembourg	50.90 - 51.00	32.45 - 32.55
Malaysia	4.0215 - 4.0345	[illegible]
Mexico	4.9155 - 4.9190	3.1290 - 3.1310
N.Zealand	2.9030 - 2.9070	[illegible]
Saudi Ar	[illegible]	3.7495 - 3.7505
Singapore	[illegible]	1.6115 - 1.6125
S.Af (Cm)	[illegible]	[illegible]
S.Af (Fn)	7.1795 - 7.1950	[illegible]
Taiwan	40.60 - 40.75	[illegible]
U.A.E.	5.7606 - 5.7280	3.6715 - 3.6735

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu Central Rates	Currency Amounts Against Ecu May 5	% Change from Central Rate	% Spread vs Weakest Currency	Divergence Indicator
Irish Punt	0.808996	0.802143	-0.97	1.81	47
Belgian Franc	40.2802	40.1996	-0.20	1.03	14
Dutch Guilder	2.20045	2.19601	-0.20	1.03	14
D-Mark	1.95284	1.95509	0.11	0.72	-2
Portuguese Escudo	180.624	181.227	0.33	[illegible]	-6
French Franc	6.54988	6.56630	0.58	0.27	-27
Spanish Peseta	142.150	143.226	0.76	0.07	-13
Danish Krone	7.44934	7.51088	0.83	0.00	[illegible]

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by Financial Times.

POUND SPOT - FORWARD AGAINST THE POUND

May 5	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.5630 - 1.5730	1.5680 - 1.5690	0.39-0.37cpm	2.91	1.18-1.15pm	2.97
Canada	1.9910 - 2.0050	1.9965 - 1.9975	0.26-0.13cpm	1.17	0.40-0.26pm	[illegible]
Netherlands	2.7700 - 2.7850	2.7750 - 2.7850	⅛-½cdis	[illegible]	⅛-1dis	-1.28
Belgium	50.70 - 51.00	50.90 - 51.00	5-10cdis	-1.77	14-19dis	-1.30
Denmark	[illegible]	[illegible]	2⅝-4⅛oredis	[illegible]	[illegible]	[illegible]
Ireland	1.0115 - 1.0170	1.0155 - 1.0165	0.19-0.22cdis	-2.42	[illegible]	[illegible]
Germany	[illegible]	2.4725 - 2.4775	⅜-½pfdis	-2.12	⅞-1dis	-1.92
Portugal	[illegible]	[illegible]	244-258cdis	-13.12	661-696dis	-11.83
Spain	180.60 - 181.30	180.95 - 181.25	153-168cdis	-10.64	393-430dis	-9.09
Italy	2281.75 - 2307.25	[illegible]	9-11liredis	-5.22	27-30dis	-4.96
Norway	10.4380 - 10.4850	10.4725 - 10.4825	⅞-1¼oredis	-1.50	2⅝-3⅞dis	-1.17
France	8.3100 - 8.3525	8.3400 - 8.3500	1¼-1⅞cdis	-2.25	3⅜-3⅞dis	-1.68
Sweden	11.4450 - 11.4850	11.4450 - 11.4550	2½-3¼oredis	-3.28	7¼-9dis	-2.93
Japan	172.25 - 173.25	172.25 - 173.25	½-⅜ypm	3.04	1¼-1⅛pm	2.75
Austria	17.38 - 17.43	17.40 - 17.43	1⅞-2⅞grodis	-1.64	4⅛-6⅛dis	-1.18
Switzerland	2.2150 - 2.2290	2.2190 - 2.2250	¼-parcpm	0.66	⅝-½pm	1.01
Ecu	1.2640 - 1.2665	[illegible]	0.24-0.28cdis	-2.47	0.68-0.73dis	-2.23

Commercial rates taken towards the end of London trading. Six-month forward dollar 2.25-2.20pm. 12 Month 4.30-4.20pm.

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

May 5	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.5630 - 1.5730	1.5680 - 1.5690	0.39-0.37cpm	2.91	1.18-1.15pm	2.97
Ireland†	1.5400 - 1.5515	1.5425 - 1.5435	[illegible]	5.48	1.95-1.90pm	4.99
Canada	1.2708 - 1.2765	1.2755 - 1.2765	0.19-0.22cdis	-1.93	0.64-0.70dis	-2.10
Netherlands	1.7640 - 1.7760	1.7725 - 1.7735	0.65-0.69cdis	[illegible]	1.88-1.92dis	-4.28
Belgium	32.30 - 32.60	32.45 - 32.55	11.00-12.00cdis	-4.25	34.00-37.00dis	-4.37
Denmark	[illegible]	[illegible]	[illegible]	-7.42	9.30-10.70dis	[illegible]
Germany	1.5700 - 1.5815	1.5775 - 1.5785	0.63-0.64pfdis	[illegible]	1.81-1.83dis	-4.61
Portugal	145.80 - 146.50	146.30 - 146.40	187-193cdis	-15.58	530-550dis	-14.76
Spain	114.95 - 115.70	115.50 - 115.60	126-132cdis	-13.40	345-355dis	-12.12
Italy	1468.00 - 1472.25	1465.25 - 1465.75	9.70-10.40liredis	-8.23	29.00-30.00dis	-8.06
Norway	[illegible]	[illegible]	2.20-2.75oredis	-4.46	6.50-7.30dis	-4.13
France	[illegible]	5.3175 - 5.3225	2.16-2.26cdis	[illegible]	6.05-6.25dis	-4.62
Sweden	[illegible]	[illegible]	3.65-4.35oredis	[illegible]	10.40-11.50dis	-6.80
Japan	[illegible]	110.15 - 110.25	0.01-0.02ydis	-0.16	0.01-0.03dis	-0.07
Austria	11.0500 - 11.1250	11.1150 - 11.1200	4.00-4.30grodis	-4.44	11.25-12.05dis	-4.19
Switzerland	[illegible]	1.4150 - 1.4160	0.25-0.28cdis	-2.25	0.70-0.74dis	-2.03
Ecu†	1.2355 - 1.2435	1.2375 - 1.2385	0.56-0.55cpm	5.38	1.61-1.58pm	5.17

Commercial rates taken towards the end of London trading. † UK, Ireland and Ecu are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency.

EURO-CURRENCY INTEREST RATES

May 5	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Can. Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dutch Guilder	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Swiss Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
D-Mark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
French Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italian Lira	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Belgian Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Yen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Danish Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $Sing	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spanish Peseta	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portuguese Esc.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Long term Eurodollars: two years [illegible] per cent; three years [illegible] per cent; four years [illegible] per cent; five years [illegible] per cent nominal. Short term rates are call for US Dollar and Japanese Yen; others, two days' notice.

EXCHANGE CROSS RATES

May 5	£	$	DM	Yen	F Fr.	S Fr.	N Fl.	Lira	C$	B Fr.	Pta	Ecu
£	1	1.566	2.475	172.7	8.345	2.220	2.780	2299	1.997	50.95	181.1	1.265
$	0.638	1	1.578	110.1	5.322	1.416	1.773	1466	1.274	32.49	115.5	0.807
DM	0.404	0.634	1	69.78	[illegible]	0.897	1.123	928.9	0.807	20.59	73.17	0.511
YEN	5.790	9.079	14.33	1000.	48.32	12.85	16.10	13312	11.56	295.0	1049	7.325
F Fr.	1.198	1.879	2.966	207.0	10.	2.660	3.331	2755	2.393	61.05	217.0	1.516
S Fr.	0.450	0.706	1.115	77.79	3.758	1	1.252	1036	0.900	22.95	81.56	0.570
N Fl.	0.360	0.564	0.890	62.12	3.002	0.798	1	827.0	0.718	18.33	65.14	0.455
Lira	0.435	0.682	1.077	75.12	3.630	0.966	1.209	1000	0.869	22.16	78.77	0.550
C $	0.501	0.785	1.239	86.48	4.179	1.112	1.392	1151	1	25.51	90.69	0.633
B Fr.	1.963	3.078	4.858	339.0	16.38	4.357	5.456	4512	3.920	100.	355.4	2.483
Pta	0.552	0.866	1.367	95.38	4.608	1.226	1.535	1269	1.103	28.13	100.	0.699
Ecu	0.791	1.240	1.957	136.5	6.597	1.756	2.198	1817	1.579	40.26	143.2	1.

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100: Pesetas per 100.

FINANCIAL FUTURES AND OPTIONS

LIFFE LONG GILT FUTURES OPTIONS £50,000 64ths of 100% — [illegible]

LIFFE EURO SWISS FRANC OPTIONS SFr 1m points of 100% — [illegible]

LIFFE BUND FUTURES OPTIONS DM250,000 points of 100% — [illegible]

LIFFE EUROMARK OPTIONS DM1m points of 100% — [illegible]

LIFFE ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS — [illegible]

LIFFE SHORT STERLING OPTIONS £500,000 points of 100% — [illegible]

LONDON (LIFFE)

9% NOTIONAL BRITISH GILT — [illegible]

US TREASURY BOND FUTURES — [illegible]

6% NOTIONAL GERMAN GOVT. BOND (BUND) DM250,000 100ths of 100% — [illegible]

6% NOTIONAL MEDIUM TERM GERMAN GOVT. BOND (BOBL) — [illegible]

6% NOTIONAL LONG TERM JAPANESE GOVT. BOND — [illegible]

12% NOTIONAL ITALIAN GOVT. BOND (BTP) — [illegible]

10% NOTIONAL SPANISH GOVT. BOND (BONOS) — [illegible]

THREE MONTH STERLING — [illegible]

THREE MONTH EURODOLLAR — [illegible]

THREE MONTH EUROMARK — [illegible]

THREE MONTH EURO SWISS FRANC — [illegible]

THREE MONTH ECU — [illegible]

THREE MONTH EUROLIRA INT. RATE — [illegible]

FT-SE 100 INDEX — [illegible]

* Contracts traded on APT. Closing prices shown.

CHICAGO

U.S. TREASURY BONDS (CBT) 8% $100,000 32nds of 100% — [illegible]

U.S. TREASURY BILLS (IMM) $1m points of 100% — [illegible]

JAPANESE YEN (IMM) Y12.5m $ per Y100 — [illegible]

DEUTSCHE MARK (IMM) DM125,000 $ per DM — [illegible]

THREE-MONTH EURODOLLAR (IMM) $1m points of 100% — [illegible]

BRITISH POUND (IMM) $ per £ — [illegible]

SWISS FRANC (IMM) SFr 125,000 $ per SFr — [illegible]

STANDARD & POORS 500 INDEX $500 times index — [illegible]

PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per £1) — [illegible]

PARIS

7 to 10 YEAR 10% NOTIONAL FRENCH BOND (MATIF) FUTURES — [illegible]

THREE-MONTH PIBOR FUTURES (MATIF) (Paris Interbank offered rate) — [illegible]

CAC-40 FUTURES (MATIF) Stock Index — [illegible]

ECU BOND (MATIF) — [illegible]

OPTION ON LONG-TERM FRENCH BOND (MATIF) — [illegible]

POUND - DOLLAR

FT FOREIGN EXCHANGE RATES

Spot	1-mth.	3-mth.	6-mth.	12-mth.
1.5685	1.5647	1.5569	1.5463	1.5260

BASE LENDING RATES

Adam & Company 6; Allied Trust Bank 6; AIB Bank 6; ●Henry Ansbacher 6; B & C Merchant Bank 6; Bank of Baroda 6; Banco Bilbao Vizcaya 6; Bank of Cyprus 6; Bank of Ireland 6; Bank of India 6; Bank of Scotland 6; Barclays Bank 6; Brit Bk of Mid East 6; ●Brown Shipley 6; CL Bank Nederland 6; Citibank NA 6; City Merchants Bank 6; Clydesdale Bank 6; The Co-operative Bank 6; Coutts & Co 6; Credit Lyonnais 6; Cyprus Popular Bank 6; Duncan Lawrie 6; Exeter Bank Ltd 6; Financial & Gen Bank 7; ●Robert Fleming & Co 6; Girobank 6; ●Guinness Mahon 6; Habib Bank AG Zurich 6; ●Hambros Bank 6; Heritable & Gen Inv Bk 6; ●Hill Samuel 6; C. Hoare & Co 6; Hongkong & Shanghai 6; Julian Hodge Bank 6; ●Leopold Joseph & Sons 6; Lloyds Bank 6; Meghraj Bank Ltd 6; McDonnell Douglas Bk 6; Midland Bank 6; Mount Banking 6; NatWestminster 6; Nykredit Mortgage Bank 6.5; ●Rea Brothers 6; Roxburghe Guarantee Corp 6; Royal Bk of Scotland 6; ●Smith & Williamson Secs 6; Standard Chartered 6; TSB 6; ●United Bk of Kuwait 6; Unity Trust Bank Plc 6; Western Trust 6; Whiteaway Laidlaw 6; Wimbledon & Sth West 7; Yorkshire Bank 6

● Members of British Merchant Banking & Securities Houses Association

MONEY MARKETS

French rates tumble

French cash rates declined sharply again yesterday on strong speculation that there might be another cut in France's official interest rates today or next week, *writes James Blitz.*

The French franc's performance on the currency markets has been sufficiently strong in recent days to make possible another easing in the Bank of France's monetary policy.

At the same time, more bad news on the French economy in recent days, including the fact that the unemployment figures have risen above 3 million, have put pressure on the authorities to cut rates again.

UK clearing bank base lending rate 6 per cent from January 26, 1993

Three month French francs declined sharply on this speculation yesterday, falling from about 7.90 per cent at the start of the day to about 7.45 per cent.

This brought 3 month French franc interest rates more-or-less in line with 3 month D-Marks.

There was a similarly bullish performance in the French franc futures market. The June contract rose 19 basis points on the day to close at 92.62. The September contract also closed 15 basis points higher at 93.28.

The spread between June futures in France and Germany also contracted yesterday to about 21 basis points. In part this was due to a slightly less bullish rise in the June Euromark contract which closed at 92.83, 4 basis pounds up on the day.

The rise in Euromarks was partly due to a larger than expected cut in the Bundesbank's repo rate, which came down 4 basis points to 7.71 per cent.

There had been some speculation that the rate might rise, due to the high level of call money.

However, the Bundesbank unexpectedly drained DM2.4bn from the market in its weekly operation.

This took dealers by surprise because the payment of a new Bund issue later this week is expected to sap market liquidity. German call money closed higher on the day at around 7.80 per cent.

Sterling cash markets were quiet, with 3-month money closing about 1/16 per cent softer at 6 per cent. The £1.35bn shortage was easily removed, helping the short-dated rates lower.

The June and September futures contracts both closed at 93.95, suggesting that dealers may be starting to wonder about base rate cuts again.

FT LONDON INTERBANK FIXING

(11.00 a.m. May 5)	3 months US dollars		6 months US Dollars	
	bid 3⅛	offer 3¼	bid 3⅛	offer 3¼

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted to the market by five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK — Treasury Bills and Bonds

Lunchtime					
Prime rate	6	One month	2.85	Three year	4.14
Broker loan rate	5	Two month	2.90	Five year	5.05
Fed.funds	2 15/16	Three month	2.94	Seven year	5.50
Fed.funds at intervention	-	Six month	3.07	10-year	5.92
		One year	3.24	30-year	6.80
		Two year	3.76		

May 5	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	7.70-7.80	7.70-7.80	7.60-7.75	7.55-7.70	7.30-7.40	8.50
Paris	[illegible]	[illegible]	-	[illegible]	-	8.25
Zurich	[illegible]	[illegible]	-	[illegible]	-	-
Amsterdam	7.87-7.90	7.85-7.90	-	7.52-7.57	-	-
Tokyo	[illegible]	[illegible]	-	[illegible]	-	-
Milan	[illegible]	[illegible]	-	[illegible]	-	-
Brussels	[illegible]	[illegible]	-	[illegible]	-	-
Dublin	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-

LONDON MONEY RATES

May 5	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
Interbank Offer	6	6	6	[illegible]	[illegible]	[illegible]
Interbank Bid	2	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling CDs	-	-	[illegible]	[illegible]	[illegible]	[illegible]
Local Authority Deps.	[illegible]	[illegible]	[illegible]	6	[illegible]	[illegible]
Local Authority Bonds	-	-	-	-	-	-
Discount Mkt Deps	[illegible]	[illegible]	-	-	-	-
Company Deposits	-	-	-	-	-	-
Finance House Deposits	-	-	[illegible]	[illegible]	[illegible]	[illegible]
Treasury Bills (Buy)	-	-	[illegible]	[illegible]	[illegible]	-
Bank Bills (Buy)	-	-	[illegible]	[illegible]	[illegible]	-
Fine Trade Bills (Buy)	-	-	-	-	-	-
Dollar CDs	-	-	2.95	2.97	3.01	3.17
SDR Linked Dep. Offer	-	-	[illegible]	[illegible]	[illegible]	[illegible]
SDR Linked Dep. Bid	-	-	[illegible]	[illegible]	[illegible]	[illegible]
ECU Linked Dep. Offer	-	-	[illegible]	[illegible]	[illegible]	[illegible]
ECU Linked Dep. Bid	-	-	[illegible]	[illegible]	[illegible]	[illegible]

Treasury Bills (sell): one-month [illegible] per cent; three months [illegible] per cent; six months [illegible] per cent; Bank Bills (sell): one-month [illegible] per cent; three months [illegible] per cent. Treasury Bills: Average tender rate of discount 5.3883 p.c. ECGD Fixed Rate Sterling Export Finance. Make up day April 30, 1993. Agreed rates for period May 26, 1993 to June 22, 1993 Scheme II & III: 7.26 p.c. Reference rate for period April 1, 1993 to April 30, 1993, Scheme IV&V: 6.018 p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 6½ from May 1, 1993. Bank Deposit Rate for sums at 7 days notice [illegible] p.c. Certificates of Tax Deposit (Series 6); Deposit £100,000 and over held under one month [illegible] p.c.; one-three months [illegible] p.c.; three-six months 5 p.c.; six-nine months [illegible] p.c.; nine-twelve months [illegible] p.c.; Under £100,000 [illegible] p.c. from Jan 27, 1993. Deposits withdrawn for cash [illegible] p.c.

MONEY MARKET FUNDS

Money Market Trust Funds

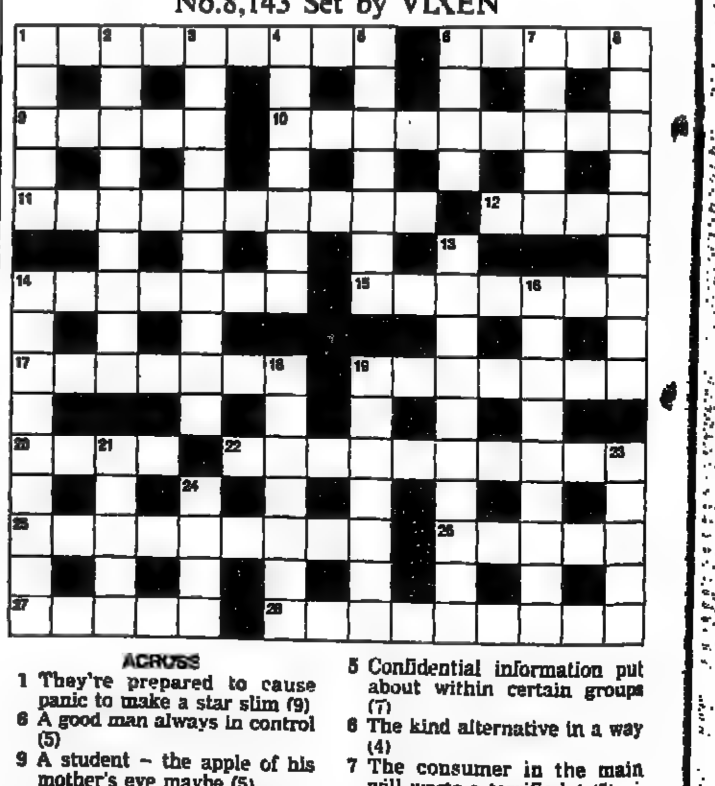
[illegible]

Money Market Bank Accounts

[illegible]

CROSSWORD

No.8,143 Set by VIXEN



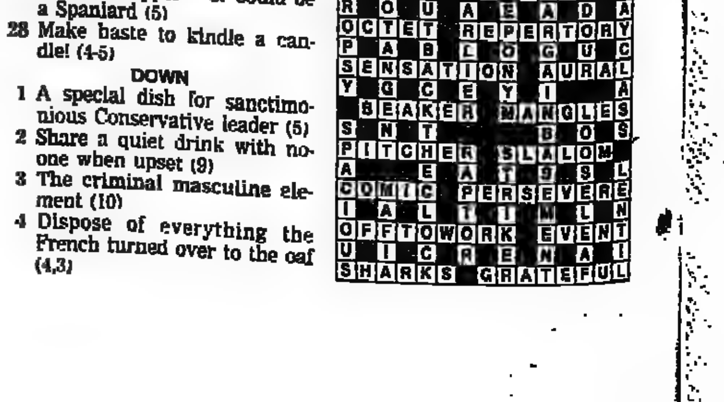
ACROSS

1 They're prepared to cause panic to make a star slim (9)
6 A good man always in control (5)
9 A student – the apple of his mother's eye maybe (5)
10 Money one classified as rent (9)
11 Some angle to hold back a beast, which is a bloomer (10)
12 Distraught seer giving tongue (4)
14 Depletion of capital assets (7)
15 A plug for the deep trainee worker (7)
17 Combine a number in a bed after study (7)
19 The buyer of small storage container (7)
20 Egghead against article written by a Welshman (4)
22 Realise subordinate position (10)
25 Insisting upon maddening reforms (9)
26 Some may feel it extravagant to add cream (5)
27 Oriental copper – or could be a Spaniard (5)
28 Make haste to kindle a candle (4-5)

DOWN

1 A special dish for sanctimonious Conservative leader (5)
2 Share a quiet drink with no-one when upset (9)
3 The criminal masculine element (10)
4 Dispose of everything the French turned over to the oaf (4,3)
5 Confidential information put about within certain groups (7)
6 The kind alternative in a way (4)
7 The consumer in the main will waste a terrific lot (5)
8 Memorable revolutionary character (3-6)
13 Cuts a cause of suffering for a marine creature (5-5)
14 Effects and cash – ie estates (9)
16 A page sounding charming (9)
18 A tourist centre built of granite (7)
19 Vehicles left with some advantage on board (7)
21 Guys doing commercials made to change a quarter (2-3)
23 Note the mark of a blow remained (5)
24 Standing up in a knot (4)

Solution to Puzzle No.8,142



WORLD STOCK MARKETS

CANADA

TORONTO

4 pm close May 5

Sales	Stock	High	Low	Close	Chng
610	Celanese	u546	45⅝	46	+⅝
38526	CntCplsl	35	30	30	-5
847500	Cmpx Ddn	u250	210	247	+37
17200	Cntrl Fd A	$5⅝	5⅝	5⅝	+⅛
330177	Cominco	$15½	15	15½	+⅜
183550	Copntalog	290	270	290	+20
142875	Coral Sys	$18	17¾	18	+½
700	CoscanDev	160	155	160	+5
98400	CrownX A	340	335	340	
79	Lafarge	$19	d19	19	
148175	Laidlaw A x	$10⅞	10⅝	10¾	+⅛
437020	Laidlaw B x	$10¾	10⅝	10¾	
2100	Laurent Bk	$17¾	17½	17¾	+¼
1400	Laurent Gp	490	490	490	+5
2900	Lawson Mar	$9⅜	9⅜	9⅜	
28870	Loblaw	$23⅝	23½	23½	-⅛
161430	Macmaldn	$7½	7¼	7¼	-⅛

f - No voting rights or restricted voting rights

MONTREAL

4 pm close May 5

INDICES

NEW YORK

DOW JONES	May 4	May 3	Apr 30	Apr 29	1993 HIGH	1993 LOW	Since compilation HIGH	Since compilation LOW
Industrials	3446.19	3446.46	3427.55	3425.12	3478.61 (16/4)	3241.95 (20/1)	3478.61 (16/4/93)	41.22 (8/7/32)
Home Bonds	107.81	107.44	107.28	106.69	107.51 (4/5)	103.46 (11/1)	501.97 (27/4/83)	54.99 (1/10/81)
Transport	1593.04	1607.54	1592.84	1597.40	1683.08 (15/4)	1463.84 (4/1)	1683.08 (16/4/93)	12.32 (8/7/32)
Utilities	241.35	238.89	238.39	239.67	247.58 (16/4)	217.14 (8/1)	247.58 (15/4/93)	10.50 (8/4/32)

DJ Ind. Day's High 3477.26 (3462.94) Low 3424.04 (3402.42) (Theoretical)
Day's High 3468.18 (3446.97) Low 3429.71 (3415.93) (Actual)

STANDARD AND POOR'S	May 4	May 3	Apr 30	Apr 29	1993 HIGH	1993 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	444.05	442.46	440.19	438.89	456.33 (10/3)	429.05 (8/1)	456.33 (10/3/93)	4.40 (1/6/32)
Industrials¶	508.03	507.64	504.84	503.36	524.99 (10/3)	496.46 (26/4)	524.99 (10/3/93)	3.62 (21/6/33)
Financial	43.67	43.35	43.18	42.67	46.67 (13/4)	39.89 (8/1)	46.67 (13/4/93)	8.64 (1/10/74)
NYSE Composite	245.23	244.64	243.45	242.48	251.35 (10/3)	239.21 (8/1)	251.35 (10/3/93)	4.46 (25/4/42)
Amex Mkt. Value	424.75	[illegible]	420.88	418.75	424.75 (4/5)	385.34 (8/1)	424.75 (4/5/93)	29.31 (9/12/72)
NASDAQ Composite	678.16	668.71	661.42	658.45	708.85 (4/2)	645.87 (26/4)	708.85 (4/2/93)	54.87 (31/10/72)

	Apr 30	Apr 23	Apr 16	year ago (approx.)
Dow Industrial Div. Yield	3.04	3.01	3.04	2.78
	Apr 28	Apr 21	Apr 14	year ago (approx.)
S & P Industrial div. yield	2.50	2.54	2.52	2.83
S & P Ind. P/E ratio	25.77	25.92	26.09	26.80

NEW YORK ACTIVE STOCKS

TRADING ACTIVITY

CANADA TORONTO

Base values of all indices are 100 except NYSE All Common - 50; Standard and Poor's - 10; and Toronto Composite and Metals - 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds.‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable. ◆ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ¶ Subject to official recalculation.

WORLD				
M.S. Capital Intl.(1/1/70) ◆	554.9*	554.8	550.1	561.1
Euro Top-100 (26/6/90)	958.13	955.05	954.66	953.13

*Saturday May 1: Taiwan Weighted Price; 4,501.00, Korea Comp Ex. 717.68.
¶ Subject to official recalculation.

Base values of all indices are 100 except Austria Traded, BEL20, HEX Gen., MIB Gen., CAC40 ... 1,000, JSE Gold - 255.7, JSE 25 Industrials - 264.3 and Australia All Ordinary and Mining ...

TOKYO - Most Active Stocks

Friday April 30 1993

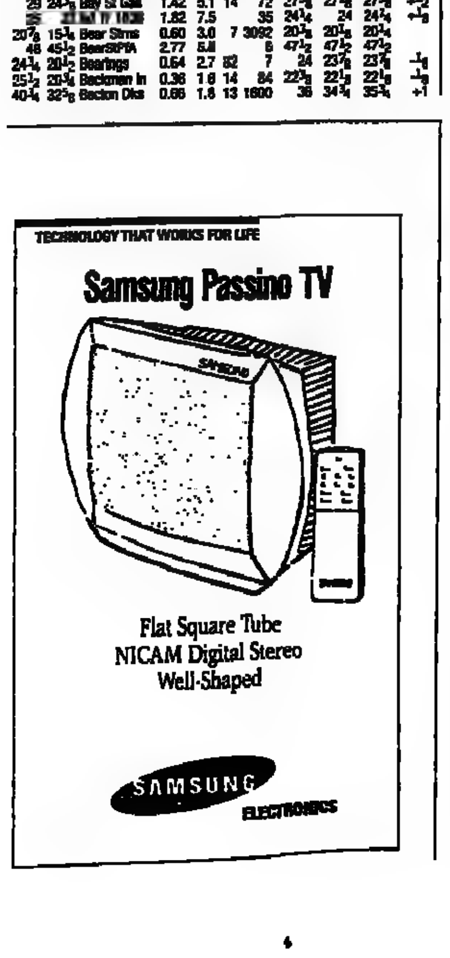
	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Nippon Oil	22.1m	854	+53	Hitachi	15.6m	937	+42
NEC	18.6m	1,050	+20	Mitsubishi Hvy	14.1m	709	+61
Fujitsu	18.0m	800	+39	Toshiba	13.0m	774	+25
Mitsui Mining	17.5m	553	+9	JAL	12.7m	860	+30
Sumitomo Mz Mn	17.1m	1,090	+20	Nippon Steel	9.4m	414	+17

JAPAN

4 pm close May 5

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1993 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
13¼	11½	AAR Corp x	0.48	3.7	24	240	13	12⅞	13	
27¼	20	A L Labs A	0.18	0.8	37	450	23⅜	[illegible]	23⅛	+1
61⅞	54⅝	AMP Inc	1.60	2.6	22	3755	u62⅛	61⅜	[illegible]	+¾
71⅝	55½	AMR			10	6618	67¾	67	67⅜	-⅝
2¼	1¾	ARX			13	129	u2¼	[illegible]	2⅛	-⅛
46⅛	29⅞	ASA	2.00	4.5	29	380	45¾	44⅞	44⅞	-½
30¼	22⅝	Abbott Lab	0.68	2.4	18	16538	28⅛	27⅛	28	+⅛
12⅝	10¼	Abitibi Pr	0.50	4.0	5	42	12⅜	12⅛	12⅜	+⅛
11¾	10⅞	ACM Gvt In x	0.96	8.3		342	11⅝	11½	11⅝	
9¾	9⅛	ACM GvOpp x	0.79	8.3		86	9½	[illegible]	9½	
9⅝	8¾	ACM Gvt Sp x	0.79	8.3		145	9½	9⅜	9½	+⅛
11⅞	10½	ACM Gvt Se	0.96	8.5		728	11¼	11⅛	11¼	
10⅞	9⅝	ACM Man x	1.08	9.8		203	u11	10¾	11	+⅛
9⅞	8⅝	ACM Managd x	0.72	8.0		142	9⅛	9	9	-⅛
9⅞	7¾	Acme Cleve	0.40	4.1	12	152	u9⅞	9¾	9⅞	+⅛
9¼	6½	Acme Elect			767	12	8	7⅞	7⅞	
16	12	Acuson			14	629	13	12⅝	12¾	-¼
22¼	19⅝	Adams Expr	0.48	2.3	1	60	21⅛	20⅞	20⅞	
66	45½	Ad Micro	3.00	5.0		332	61¾	60½	60½	-1
32¾	17⅝	Ad Micro P	3.00	10.2	12	7510	30½	29⅜	29½	-¾
7¾	5½	Advest Grp	0.16	2.6	10	68	6½	6¼	6¼	-¼
43⅞	41½	Aegon ADR	2.95	6.3	8	106	46¾	46¼	46½	+½
53¼	43⅝	Aetna Lf x	2.76	5.2	180	1123	53⅜	53	53	
14½	11½	AFG A	0.28	2.1	29	1240	12¾	12⅝	12⅝	
39¾	33	Aflac	0.50	1.3	17	1392	39⅝	38¾	39½	+1
22⅛	17⅛	Ahmanson x	0.88	5.0	14	862	18	17⅝	17¾	+⅛
7¾	4⅝	Aileen Inc			18	8	5⅛	5⅛	5⅛	-⅛
48½	40⅞	Air Pr Chm	0.86	2.0	17	858	44	43⅞	43⅞	-¾
24¼	18⅛	Airborne Frt x	0.30	1.4	65	314	22	21¼	21⅜	-⅜



Continued on next page

4 pm close May 5

NYSE COMPOSITE PRICES

Continued from previous page

[illegible]

1993 High	1993 Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
- X - Y - Z -										
85⅞	73½	Xerox	3.00	3.9	22	1490	76⅞	75⅞	76	[illegible]
65½	51½	Xerox4.125	4.13	7.5		4	55	54	55	+1
100¼	62½	Xtra Corp	0.96	1.1	19	[illegible]	94	[illegible]	[illegible]	[illegible]
35¾	29⅝	Yankee Egy	1.66	5.0	13	11	33	32¾	33	
1⅝	⅞	Zapata			112	215	u1⅝	1½	1½	[illegible]
8⅝	6⅝	ZenithElec			2	597	6⅝	6¾	6¾	
29¾	19⅝	Zenith Nat x	1.00	3.7	22	10	26¾	26¾	26¾	
7⅞	6½	Zeolx Inc	0.82	10.8		142	[illegible]	7½	7⅝	+⅛
16	12¾	Zero Corp	0.40	2.8	16	112	13⅞	13⅝	13¾	
40¾	35¼	Zurn Ind	0.88	2.3	41	146	38	37⅝	37¾	[illegible]
13¾	12⅝	Zweig Fund	1.12	8.8		183	12⅞	d12⅝	12¾	
10⅝	9⅞	Zweig Tot	0.96	9.5		720	10⅛	10	10⅛	

Price data supplied by Telekurs

[illegible]

AMEX COMPOSITE PRICES

4 pm close May 5

[illegible]

NASDAQ NATIONAL MARKET

4 pm close May 5

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
- A -							
A&WBrands	0.32	16	605	18¾	18	18¾	+¼
ACC Corp	0.12	24	309	13	12½	12½	
Acclaim E		33	11781	21⅞	20⅜	21¾	+1⅛
Acme Mets		34	82	15¼	14¼	14¾	-½
Acxiom Cp		29	158	17¼	16¼	17	+⅝
Adaptech		141	5715	24½	23¼	24	-¾
ADC Tele		21	1205	43	40¼	43	+2
Addington		18	214	13½	13	13	-⅜
Adia Serv	0.16	17	3	u20	19	20	
Adobe Sys	0.40	30	21713	61½	59¾	61	-1⅜
Advance C		13	708	u13½	12⅜	13⅛	+¼
Adv Logic		9	320	[illegible]	2⅝	2⅝	[illegible]
Adv Polym		16	472	7⅝	7	7¼	
AdvTchLab		30	318	18	17½	18	
Advanta	0.25	17	2794	38¾	37	37	-½
Affymax		21	431	16¾	15½	16¾	+¾
Agency Re		12	366	8⅛	7⅞	8⅛	
AgnicoEa	0.10	33	2441	7½	7⅛	7⅜	-⅛
Akzo ADR	2.60	8	569	42	41¾	42	
Aldus Cp		84	1062	15⅝	15	15¼	+⅛
Alex Bald x	0.88	15	1689	u27¼	25½	27	+¾
Allegh &W		15	6	8⅛	7¾	8⅛	+⅜
Allen Org	0.48	13	12	30½	28¾	28½	

[illegible]

AMERICA

Attention focuses on employment figures

Wall Street

US stock prices traded in a narrow range yesterday as concern about the state of the economy depressed market sentiment and kept many investors on the sidelines, *writes Patrick Harverson in New York.*

At 1 pm, the Dow Jones Industrial Average was up 5.12 at 3,451.31, having spent all morning no more than a few points either side of Tuesday's closing values. The more broadly based Standard & Poor's 500 was up 0.78 at 444.83, while the Amex composite was 0.23 firmer at 424.99, and the Nasdaq composite was up 2.58 at 680.74. Trading volume on the NYSE was 152m shares by 1 pm, and rises outnumbered declines by 1018 to 734.

Economic concerns continued to overhang the markets. In spite of Tuesday's stronger car sales, the bulk of the recent data has painted a picture of an economy slowing down from the high rates of growth achieved at the end of 1992.

Yesterday's economic news came from the Federal Reserve, which released its "Beige Book" report on the economy. It stated that there had been a modest improvement in economic conditions recently, and that retail prices had remained stable. There was little reaction to the report, primarily because attention was focused on tomorrow's April employment figures, which will give the most recent reading on conditions in the all-important labour market.

Dealers and investors were also keeping a close eye on developments in the bond market, which was waiting for yesterday afternoon's announcement of the Treasury's plans to change the mix of the government debt. Speculation concentrated upon a likely reduction in the size of future long bond issues, and commensurate increases in issues of shorter-dated securities.

Cable television stocks, which jumped sharply on Tuesday in the hope that new federal regulations on the industry would not be as tough as originally feared, fell yesterday amid profit-taking, and after a leading brokerage house, Goldman Sachs, made negative comments about the sector.

Time Warner fell $1¼ to $34⅝ in volume of 1.4m shares, Cablevision dropped $2¼ to $31, and on the Nasdaq market, Tele-Communications fell $1⅜ to $19⅞ and Comcast slipped $1⅛ to $19⅛.

ITT rose $1⅜ to $82¾ on the news that it has entered an agreement to sell its $2bn portfolio of consumer loans to an investment group led by Goldman Sachs. The purchase price of the deal was not revealed.

Airline groups AMR fell $⅝ to $67⅝ and UAL dropped $2⅛ to $134 after an analyst at Salomon Brothers downgraded his ratings on the two stocks.

On the Nasdaq market, MCI Communications rose $⅛ to $47⅝ after the company won an $80m global services contract from banking group JP Morgan.

Canada

TORONTO was easier at midday in active trading. The TSE-300 index was down 1.32 to 3,777.85 in volume of 4.7m shares. Advances led declines by 145 to 105 with 183 issues remaining unchanged.

The gold sector declined on profit-taking, while communications and media related shares led the rise, as investors focused on sectors which have been lagging behind the recent rally.

EUROPE

S-E Banken rises on hopes for recovery

A slight easing in Germany's repo rate had no significant impact on activity yesterday, although there were suggestions that France would soon make a further cut in its interest rates, *writes Our Markets Staff.*

STOCKHOLM took the recovery theme to heart encouraged it seemed by first quarter results from S-E Banken which showed a decline in non-performing loans. The C shares surged to a day's high of SKr28.50 before slipping back to close up SKr6.50 at SKr22.00 in exceptionally strong turnover. The Affärsvärlden index rose 10.70 or 1 per cent to 1,052.10, a new year's high, in turnover of some SKr1.5bn.

Mr David Longmuir of James Capel in London noted that a question mark remained over the bank's recovery prospects since it still required a fresh cash injection. Another analyst remarked that while the bank remained a high risk play the market was of the opinion that it had turned the corner.

Mr Longmuir added that after a few weeks of drift in the market a new mood of optimism appeared to have taken hold, encouraged also by other corporate news. Ericsson was a case in point, gaining SKr7 in the B shares to SKr291, after winning a contract to supply mobile telecommunications equipment to Germany.

Stora, the forestry products group, was another to benefit, adding SKr8 or 2.6 per cent to SKr317 in the B's, on first quarter results.

AMSTERDAM was encouraged by first quarter results from Philips which came in above expectations. The group's shares gained Fl 2.00 or 8 per cent to Fl 27.30 for a new year's high. Analysts commented that there had been a positive meeting with the consumer electronics division still under pressure, the overall picture was good.

The CBS Tendency index improved 1.00 to 108.3.

PARIS gained on light buying but overall trading remained subdued on worries over economic prospects. The CAC-40 index rose 2.71 to 1,926.34 in turnover of FFr1.5bn.

Peugeot, which lost ground on Tuesday on poor car sales figure for April, rebounded FFr13 to FFr657, while Canal Plus gained FFr27 to FFr1,317 after a rise in first quarter turnover.

FRANKFURT, however, eased in light selling, but the index recovered from its day's lows on better than expected corporate earnings results. The DAX lost 4.21 to 1,623.16 in turnover of DM6.2bn.

An analyst at Smith New Court said that investors were starting to realise that previous expectations for weak company profits were over-pessimistic.

A 33.7 per cent rise in 1992 group net earnings, and reports that Schering's first quarter profit fall was less than expected, lifted sentiment. Kaufhof rose DM15 to DM475, while Schering closed up DM15 at DM759.

MILAN turned lower, with investors hesitant ahead of today's confidence debate on the newly-appointed government of Prime Minister Carlo Azeglio Ciampi.

Miss Marie-Christine Keith of NatWest Securities in London said that the market was, to an extent, already discounting the vote of confidence. However, in the absence of any surprises, a "yes" vote was likely to give prices a modest boost.

The Comit index shed 4.48 to 541.1, taking its lead from a lower trend by Fiat after it forecast lower net profit for 1992 and declined to give details of dividends. The shares lost L124 to L6,726 before easing to L6,670 after-hours.

ZURICH extended early gains and the SMI index rose 6.7 to 2,166.7.

The advance was supported by a strong financial sector, benefiting from the firm Swiss franc which was at a year's high against the D-mark. UBS bearers, trading ex the SFr29 dividend, finished SFr18 lower at SFr919. SBC added SFr8 to SFr345.

COPENHAGEN advanced as hopes of a positive outcome from the May 18 referendum over the Maastricht treaty spurred active buying. The KFX index gained 0.94 or 1.1 per cent, to 87.73 in turnover of DKr754m.

FT-SE Actuaries Share Indices — THE EUROPEAN SERIES

May 5 Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1143.53	1148.67	1148.39	1150.26	1151.35	1152.79	1152.99	1153.13
FT-SE Eurotrack 200	1203.44	1202.90	1203.27	1203.78	1204.65	1204.80	1205.81	1206.61

	May 4	Apr 30	Apr 29	Apr 28	Apr 27
FT-SE Eurotrack 100	1148.16	1144.33	1143.23	1154.98	1149.08
FT-SE Eurotrack 200	1207.82	1206.79	1199.62	1212.69	1213.85

Base value 1000 (26/10/90) High/day: 100 - 1154.18; 200 - 1207.53 Low/day: 100 - 1146.83 200 - 1201.58

Investors ponder a message set in gold

Peter Martin examines some investment themes raised by global equity strategists

A TOUR of equity markets on both sides of the Atlantic, in the company of people paid to have opinions about them, throws up two interesting themes.

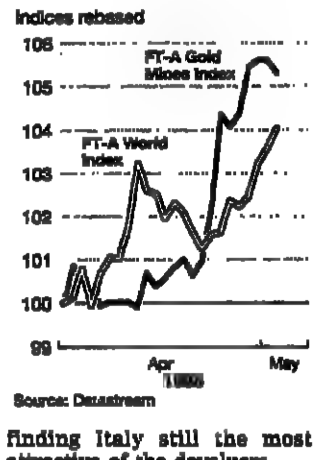
First, what is the message that the gold market is sending to investors? The FT Gold Mines index of shares in companies that mine the metal, is up 147 per cent since its mid-January low. Gold itself has risen from $326 an ounce in mid-March to $355 an ounce, a rise of 9 per cent.

One message is that Mr George Soros, who moved into gold in a big way, has a lot of followers in the international investment community. There are, however, other possible reasons for taking the message from the gold market seriously. Perhaps, says Mr David Shulman, US equity strategist at Salomon Brothers in New York, gold is warning us of inflationary pressures ahead. Next year, he believes, North America, Europe and Japan will all turn in strong economic performances. This would be the first time that the three main economic centres have been growing together since 1989.

"The risk is that there may be more pressure on the system," he says, "rather than less". That makes him worried that US interest rates, at least, may start to move higher – in spite of recent weak performance by US economic indicators. Offsetting those, he says, may be a surprisingly strong growth in tomorrow's US employment numbers.

Optimistic views of economic growth do not necessarily translate into favourable assessments of the current levels of share prices, of course. In the US, for example, Mr Shulman believes that the market is likely to drift lower. In Europe – where the consensus view of economic growth is certainly not an optimistic one – the valuation calculations are even more fraught.

That leads to the second big theme among strategists: the divide between Europe's devaluers and the continent's hard-currency bloc. In general, the economic outlook for the devaluing countries is seen as far more favourable than for their more determined neighbours. There is room for controversy, however, about whether share prices in devaluers such as Britain, Italy and Scandinavia now fully reflect the likely benefits of a lower currency – or whether, indeed, the upwards move in prices has not gone too far.



The debate is most pointed in the case of Italy, where the stock market has outperformed the FT-SE Eurotrack 100 by 41 per cent since since last autumn's lows, compared with 9 per cent for the UK and 30 per cent in Sweden. This strong performance comes in spite of Italy's interlinked political and fiscal crises.

With a government headed by a central banker, and revolutionary political changes apparently under way, some international investors are finding Italy still the most attractive of the devaluers.

The argument is enhanced by some more mundane arguments. Mr Nick Stevenson, European equity strategist at Warburg Securities in London, says that Italian companies have recently been reporting margins back at the levels of 1986-87, the period before the ERM became a semi-fixed-rate system, and currencies like the lira started becoming heavily over-valued.

It is true, he says, that in time the competitive advantages of a devalued currency will always be frittered away but wage restraint, of the sort now visible in Italy and the UK, will delay that moment for years.

As a result, he says, Italian shares are very cheap by historical standards. "We think Italian earnings are 60 per cent below trend earnings," he says. Though the market is selling at around 35 times earnings at the trough of the economic cycle, the restoration of margins to trend levels would bring down the ratio to something closer to 10.

If strategists are still bullish on some, at least, of the devaluers, they have become increasingly gloomy about prospects for the two main hard-currency countries, France and Germany. Mr Stevenson, for example, points to the vulnerability of "commodity" industrial producers in both countries, which may take years to return to the "normal" earnings levels of 1986-88.

Mr Michael Young, based in London as Merrill Lynch's director of European investment strategy, says that for cyclical stocks in the D-Mark bloc, "the real window of vulnerability is basically the second quarter," as companies give up on their hopes of a second-half recovery this year. "By the fourth quarter at the latest, I would fully expect the market will be back to anticipating recovery in 1994. But we've got to get from here to there."

ASIA PACIFIC

Manila's fifth consecutive gain achieves record high

THE region's major markets were firmer yesterday. Tokyo, Bangkok and Seoul were closed for holidays.

MANILA advanced for the fifth consecutive trading day, closing at an all-time high on active buying. The composite index gained 17.87 to 1,654.39 in spite of profit-taking by some institutions. Traders said that the rally was driven by lower interest rates, with local institutions moving funds to the equity market from the treasury bill market, which is yielding 10.8 per cent down from 14 per cent at the start of the year.

Mr Anton Periquet of Asia Equity said that the bottom for the treasury bill yield would be *the peak of the stock market.* "The rally could last another two weeks at the most," he said.

KUALA LUMPUR advanced marginally after a rise in some blue chip issues, amid low volumes ahead of today's national holiday. The composite index rose 0.38 to 706.46 in volume of 359.4m shares against 430.5m. Traders said that investors had already discounted rumours over the health of Prime Minister Mahathir Mohamad, which depressed share prices on Tuesday. However, aside from short-term buying in smaller stocks by local investors, an analyst at Kim Eng Securities in London said that he doubted whether there would be a further rally in the market, since leading blue chip stocks look reasonably valued.

AUSTRALIA saw a strong rise led by advances in the banking and gold sectors. The All Ordinaries index jumped 10.4 to 1,664.3, rising for the first time since April 26. Some traders, however, said that the gains were technical after the declines. The gold sub-index rose 4.6 per cent to 1,492, with Plutonic Resources up 30 cents to A$4.60, while North Flinders Mines advanced A$1.30 to A$8.80. Westpac advanced 11 cents to A$3.50, while Australia & New Zealand Banking Group, which announces its earnings on May 14, advanced 9 cents to A$3.50 on speculation that its bad debt charges would fall sharply.

NEW ZEALAND shrugged off Tuesday's 1.9 per cent fall and moved firmly ahead, taking the NZSE-40 index 13.43 higher to 1,577.54.

Forestry shares, which bore the brunt of Tuesday's selling, recouped some of their losses. Fletcher Challenge and Carter Holt Harvey both added 5 cents to NZ$2.65 and NZ$2.95 respectively.

Lion Nathan, the brewer, rose 10 cents to NZ$3.55 after announcing that interim profit before extraordinaries rose to NZ$37.4m from NZ$46.0m.

TAIWAN closed mixed after late buying cut early losses, but trade remained very sluggish. The weighted index, which was down more than 30 points at mid-morning, ended 1.14 ahead at 4,449.32 in turnover of T$22bn.

The mood was unsettled by poor April trade figures announced late on Tuesday. But the market found support near the 4,400 level on hopes that the central bank might ease monetary policy in the medium term, after parliament passed a non-binding resolution requesting the central bank to cut reserve requirements.

HONG KONG held on to small gains at the close after an afternoon rebound from morning losses. The Hang Seng index finished 2.04 higher at 6,829.33, after a day's high of 6,856.46. Turnover rose to HK$4.54bn from HK$3.71bn.

Rumours, confirmed after the market closed, that the Sino-British Land Commission, which regulates Hong Kong government land sales, would meet soon brought out bargain-hunters.

Retail investors continued to switch to second and third liners, while fund managers remained buyers of blue chips. Cheung Kong topped the most active list, putting on 30 cents to HK$26.80. HSBC Holdings was down 50 cents to HK$70.50.

SINGAPORE bounced off lows to end firmer ahead of today's holiday. The Straits Times Industrial index closed up 3.56 at 1,780.20 in volume of 182m shares compared with Tuesday's 238m.

Sembawang Shipyard, which *saw a block trade of 5m shares* at S$11.30, closed 20 cents higher at S$11.40 in total volume of 5.6m shares.

JAKARTA, also on holiday today, was steady in moderate trade and the official index closed 0.30 lower at 318.61.

Astra International dropped Rp300 to Rp11,500 in spite of its rise in first quarter profit.

BOMBAY picked up late in the session after languishing for much of the day as speculators bought on expectations that carry forward costs after Friday's account closure would be low. The BSE index closed 40.33 higher at 2,168.70.

SOUTH AFRICA

NERVOUSNESS about the outlook for gold prices undermined a firmer trend among miners, leaving the gold index 33 lower at 1,465.

Industrials eased 3 to 4,383, and the overall index was 20 down at 3,760.

De Beers came under pressure, losing R2 to R79.75 and Anglos lost 75 cents to R127. Vaal Reefs finished R1.50 lower at R263.50.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co. and NatWest Securities Limited in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	TUESDAY MAY 4 1993								MONDAY MAY 3 1993					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	1993 High	1993 Low	Year ago (approx)
Australia (68)	134.79	−1.0	127.24	93.93	110.09	128.24	+0.0	3.85	136.21	129.29	95.44	112.07	128.26	144.19	117.39	151.11
Austria (18)	142.46	+0.8	134.49	99.29	116.36	116.45	+0.0	1.75	141.37	134.19	99.06	116.31	116.41	150.96	131.16	163.46
Belgium (42)	147.80	+0.0	139.52	102.99	120.71	117.91	−0.7	4.80	147.85	140.33	103.59	121.64	118.72	156.76	131.19	139.40
Canada (110)	127.19	−0.2	120.07	88.64	103.88	117.11	+0.1	2.83	127.48	121.00	89.32	104.87	117.02	127.86	111.41	127.18
Denmark (33)	224.51	+3.0	211.94	156.46	183.37	184.20	+2.2	1.23	217.93	206.85	152.70	179.30	180.32	224.51	185.11	236.92
Finland (23)	97.50	+1.7	92.04	67.95	79.63	110.71	+0.8	1.11	95.84	90.97	67.15	78.85	109.79	97.50	65.50	79.23
France (98)	162.39	+0.1	153.30	113.16	132.62	134.94	−0.6	3.33	162.22	153.97	113.65	133.45	135.73	167.36	142.72	163.25
Germany (62)	114.43	+0.7	108.02	79.76	93.46	93.46	−0.1	2.28	113.66	107.88	79.65	93.51	93.51	117.10	101.59	117.92
Hong Kong (55)	275.33	+0.6	259.92	191.88	224.89	273.19	+0.6	3.39	273.59	259.68	191.69	225.10	271.46	277.23	218.82	233.10
Ireland (15)	163.92	+0.9	154.74	114.24	133.88	149.16	+0.3	3.54	162.46	154.20	113.83	133.66	148.69	170.40	129.28	164.02
Italy (73)	70.55	+1.6	66.60	49.16	57.62	77.28	+1.2	2.55	69.42	65.89	48.64	57.11	76.39	70.55	53.78	69.95
Japan (470)	146.78	+0.5	138.56	102.29	119.90	102.29	+0.0	0.82	145.99	138.57	102.29	120.13	102.29	146.78	100.75	97.39
Malaysia (69)	319.08	−1.6	301.22	222.36	260.60	315.09	−1.6	2.14	324.35	307.87	227.26	266.86	320.24	324.36	251.66	245.28
Mexico (18)	1485.81	+0.0	1402.64	1035.47	1213.55	5057.91	−1.8	1.34	1486.07	1410.52	1041.24	1222.85	5148.15	1725.81	1410.30	1638.28
Netherland (24)	169.55	+0.7	160.06	118.16	138.46	136.58	+0.0	4.05	168.38	159.82	117.98	138.54	136.56	172.75	150.39	156.72
New Zealand (13)	46.43	−2.9	43.83	32.36	37.93	45.69	−2.5	4.79	47.80	45.37	33.49	39.32	46.88	49.32	40.56	44.50
Norway (22)	163.68	-0.8	154.52	114.07	133.69	147.68	−1.5	1.79	164.92	156.53	115.56	135.69	149.68	164.92	137.71	186.89
Singapore (38)	240.73	−1.2	227.26	167.77	196.62	179.00	−1.2	1.88	243.60	231.22	170.69	200.42	181.19	243.60	207.04	217.87
South Africa (60)	188.30	+1.5	177.76	131.22	153.79	188.80	+1.4	2.66	185.47	176.04	129.95	152.59	186.27	188.30	144.72	238.19
Spain (45)	132.54	+0.2	125.12	92.37	108.25	115.62	−0.3	5.23	132.28	125.51	92.65	108.79	115.93	132.82	115.23	149.51
Sweden (36)	173.73	+1.5	164.01	121.08	141.90	187.75	+1.0	1.79	171.21	162.51	119.97	140.87	185.84	174.66	149.70	188.02
Switzerland (55)	122.90	+1.2	116.02	85.66	100.40	108.01	+0.3	2.02	121.41	115.23	85.07	99.90	107.71	122.90	108.91	103.08
United Kingdom (218)	179.46	+0.6	169.41	125.05	146.56	169.41	+0.1	4.06	178.39	169.32	124.98	146.76	169.32	181.99	162.00	190.75
USA (519)	181.23	+0.3	171.09	126.31	148.03	181.23	+0.3	2.82	180.60	171.42	126.55	148.60	180.60	186.27	175.38	170.03
Europe (764)	147.78	+0.7	139.51	102.99	120.71	131.68	+0.1	3.39	146.78	139.32	102.84	120.77	131.61	149.02	133.92	150.51
Nordic (114)	166.74	+1.7	157.41	116.20	136.19	157.50	+1.1	1.58	163.91	155.57	114.85	134.85	155.76	166.74	142.13	177.64
Pacific Basin (713)	149.94	+0.4	141.55	104.50	122.47	108.20	+0.0	1.10	149.32	141.73	104.63	122.86	108.22	149.94	105.89	103.94
Euro-Pacific (1477)	148.94	+0.5	140.60	103.79	121.64	118.45	+0.0	2.03	148.16	140.63	103.80	121.89	118.44	148.94	117.28	122.77
North America (629)	177.86	+0.3	167.91	123.97	145.29	176.86	+0.3	2.82	177.29	168.28	124.24	145.89	176.27	182.38	171.51	167.34
Europe Ex. UK (546)	128.07	+0.7	120.90	89.27	104.63	110.38	+0.1	2.94	127.13	120.67	89.09	104.62	110.33	128.65	112.51	126.56
Pacific Ex. Japan (243)	181.55	−0.5	171.39	126.54	148.30	166.07	−0.2	3.27	182.53	173.25	127.91	150.19	166.39	184.84	152.70	168.44
World Ex. US (1665)	149.39	+0.5	141.03	104.12	122.02	120.43	+0.0	2.05	148.63	141.07	104.15	122.29	120.41	149.39	118.51	125.19
World Ex. UK (1966)	157.10	+0.4	148.30	109.49	128.32	136.14	+0.2	2.16	158.42	148.46	109.60	128.70	135.94	157.10	134.22	134.52
World Ex. So. Af. (2124)	158.98	+0.4	150.08	110.80	129.86	138.79	+0.1	2.34	158.28	150.23	110.91	130.23	138.60	158.98	137.29	138.72
World Ex. Japan (1714)	167.45	+0.4	158.08	116.71	136.79	159.45	+0.2	3.03	166.77	158.29	116.86	137.23	159.13	168.09	157.47	162.78
The World Index (2184)	159.07	+0.5	150.16	110.86	129.93	139.23	+0.1	2.34	158.35	150.30	110.96	130.29	139.03	159.07	137.32	139.37

Constituent name change: British Columbia Telephone to BC Telecom (Canada). Latest prices were unavailable for this edition. Japanese market closed May 4.

FINANCIAL TIMES SURVEY

PENSION FUND INVESTMENT

SECTION III

Thursday May 6 1993

The top few fund management companies are strengthening their grip on the £370bn occupational pension fund sector. They are satisfying the demands of trustees by delivering high performance and consistency, writes **Barry Riley**, Investment Editor

Escape from ERM squeeze

NEVER IN the history of pension fund investment has so much been invested on behalf of so many by so few.

By the end of last year the top six external investment management companies controlled UK pension fund portfolios worth £110bn. If you add in the top few in-house managers, led by PosTel with £20bn, it is likely that only about 10 or a dozen managers control half the £370bn total value of UK pension funds.

Yet, at one level, the gravitation of assets towards the most successful managers is no more than a normal process in a competitive market place.

Last year this was underlined by the way that many managers beat index returns, both in terms of the UK and global stock markets. More than two-thirds of all the funds measured by WM outperformed the All-Share return in 1992, half of them by a full percentage point. International outperformance was even more clearcut, with the average overseas equity portfolio returning 19.7 per cent compared with just 16.4 per cent on the World ex UK Index.

However, this may have represented an unusual combination of favourable factors. In 1992, for instance, most UK managers were helped by their low weightings of plunging pharmaceutical stocks, and they were also light in Japan, the worst major international market.

But, as fewer and fewer managers come to dominate, their big bets can have a disproportionate impact, sometimes for good but with worrying longer-term implications. Excessive concentration could increase the risks of investment and create distortions.

The focus of the problem changes from time to time, however. A few years ago institutional investors were being roundly attacked for too readily supporting aggressive takeovers, and for helping to generate undue short-termism. But at present there are scarcely any contested takeover bids so the criticism has shifted, concentrating, for instance, on the pressures exerted on British companies for excessive dividend payments.

Last year's investment returns were much more fragile than they looked, depending as they did on a final quarter which delivered, on average, some 14 percentage points of the 20.3 per cent annual return (excluding property).

For much of last summer pension fund managers had a nail-biting time as their traditional strategy of investing primarily in inflation-proof assets, notably equities, threatened to clash violently with the UK's anti-inflationary commitment to the European exchange rate mechanism.

September 17, Black or White Wednesday, depending on your point of view, played into the hands of most pension fund managers by substantially enhancing the value of the UK equities which typically make up almost 60 per cent of the average portfolio. The sterling value of overseas equities and bonds was also greatly increased.

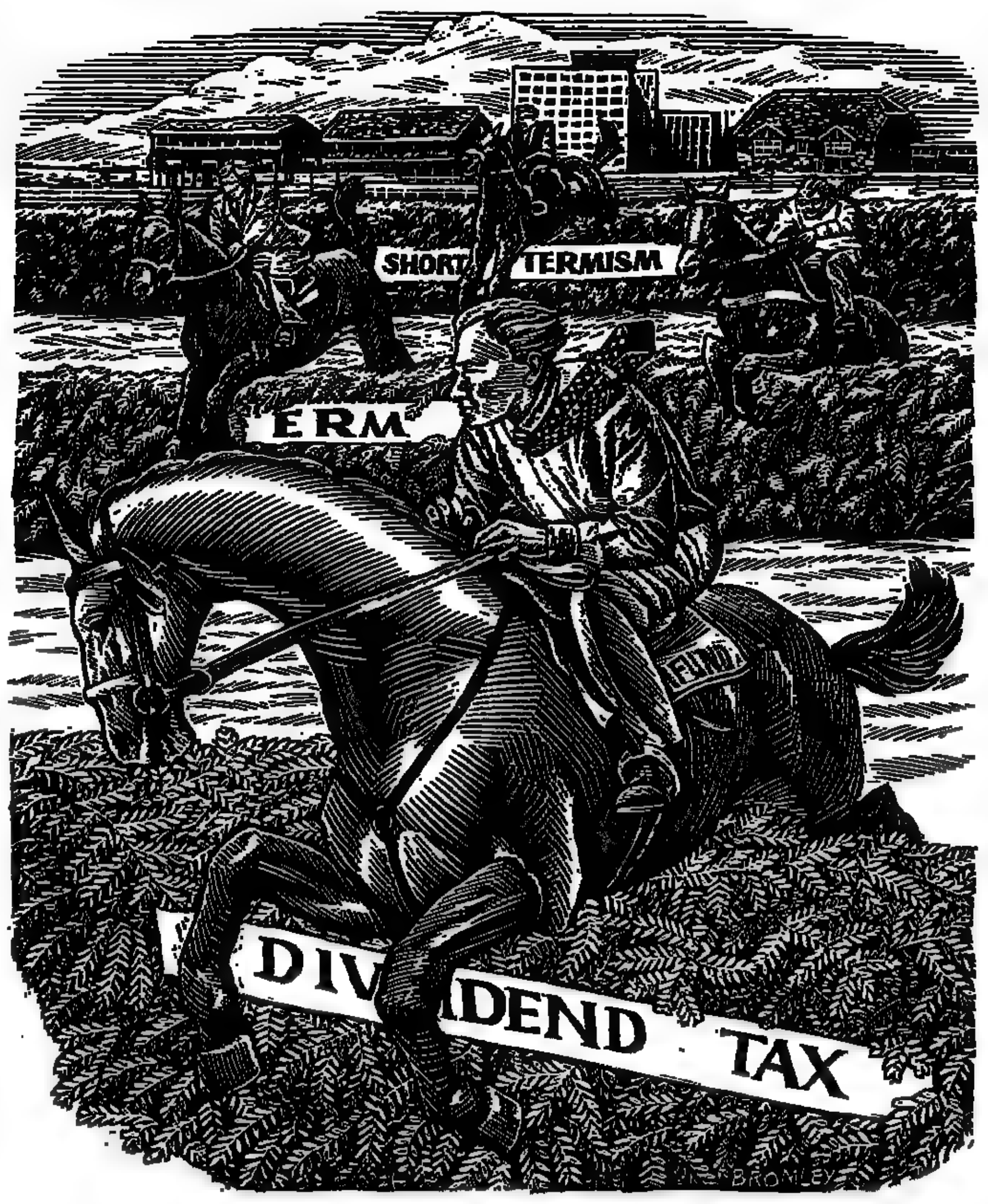
So, it all worked out well in the end, but, nevertheless, the fundamentals of UK equity market valuation are stretched. Company profits were flat, and although they may well bounce back in most cases in 1993, dividend cover will remain historically poor.

Dividends are especially important to pension funds, and not just because they can claim back the tax on them. In the UK, actuaries value the assets of pension schemes primarily on the basis of the income they generate, rather than market values. Pension fund managers therefore take a dim view when companies cut dividends – the impact on scheme surpluses could be serious.

There have been many cases of companies raising new capital through rights issues primarily to finance the flow of dividends. A large part of the forthcoming £1.2bn rights issue by ICI/Zeneca, for example, will go straight out again in dividends not covered by short-term profits.

Government statistics show dividends from the company sector as a whole continuing to rise quite strongly throughout the recession, from £19bn in 1989 to £25bn in 1992. However, new privatisations may have had something to do with this, and the growth in dividends paid out by constituent companies of the FT-Actuaries All-Share Index finally ground to a halt in 1992.

While pension funds continue eagerly to lap up company dividends, they equally continue to shun conventional British government securities. According to WM, pension fund holdings of fixed interest gilts continued to fall last year, and at 4 per cent of portfolios on average are no bigger than the investments in foreign currency bonds. Another 3 per cent slice of portfolios is in index-linked gilts.



Do the pension funds risk retaliation if they continue to be unresponsive to the government's financial difficulties? After all, the government has a £50bn borrowing requirement for the 1993-94 financial year and is now running monthly £3bn gilt-edged auctions.

That is one explanation of the unexpected company tax changes in the March Budget. By cutting the rate of tax on dividends which could be reclaimed by pension funds and other exempt investors from 25 to 20 per cent the treasury effectively imposed on pension funds a dividend tax worth perhaps £460m a year. More subtly, the relative appeal of gilt-edged interest, and other non-dividend income, has been enhanced.

The gross UK dividend income received by pension funds has effectively been reduced by 6¼ per cent. Little explanation of this has been offered by the government, which has justified the ACT changes primarily in terms of the transitional cash flow benefit to companies rather than the permanent diminution of income of exempt shareholders.

But it is certainly possible to argue, theoretically, that a primary original 1970s objective of the UK imputation system of corporation tax – to remove the previous tax bias against dividends as opposed to retentions – has been overwhelmed in recent years by the rapid growth of tax-exempt investors, notably pension funds. Indeed, a bias has developed towards *over*distribution.

One other cloud on the horizon is being anxiously watched. It is the possibility that the present overwhelming predominance of final salary-based pension schemes in the UK might be disturbed by a swing towards money-purchase schemes which sidestep the controversy over surpluses.

There is no evidence that such a shift is happening yet, except among quite small companies, but there is nervousness about what recommendations the Goode Committee on pension law reform will make next September. Possibly, new burdens and costs might be imposed upon companies operating final salary schemes. There is in any case concern about the response of companies when widespread pension contribution holidays come to an end and the full cost of final salary-linked schemes must once again be borne.

Do we have Rolls-Royce pension schemes in the Ford Mondeo era? With unemployment high it is no longer necessary for companies to offer generous pension schemes to attract and retain employees. There is little sign that companies will actually *dismantle* existing arrangements. But a recent survey by the Alexander Consulting Group suggested that if companies were starting again with a clean sheet only 29 per cent would launch a final salary scheme (although 78 per cent have one now).

A widespread switch to money-purchase schemes would pose big challenges to fund managers. Instead of having a single very long-term client in each scheme they would have thousands of individual, shorter-term investors. They would need to invest in lower risk assets, to address the needs of scheme members approaching retirement.

Moreover, the greater participation of individual scheme members and, probably, trade unions, would require investment managers to act much more like retail institutions, offering simple, but flexible, products and seeking to build customer-friendly images. It would be a major change of approach for institutions, such as Mercury Asset Management and Phillips & Drew Fund Management, which are highly successful at dealing with professional pension consultants and trustees but scarcely have high profiles as far as the public at large is concerned.

If a shift towards money purchase were ever to become pronounced, it would be likely to reverse the gravitation of money towards the top managers and to lead to the kind of institutional proliferation more typical of the retail investment market.

But for the time being the harsh process of natural selection continues in the highly competitive world of pension fund management, and success still belongs to the few.

IN THIS SURVEY

Editorial production: Roy Terry

PENSION FUND INVESTMENT 2

Barry Riley analyses the performance of the top managers

Past success brings rewards

IT MAY be tough at the top, where the number one pension fund management house Mercury Asset Management had to cope with a boardroom reshuffle last year, but it can be even worse down below.

The remarkable process of concentration of external managers in the UK's pension fund sector continued unabated last year. Although MAM suffered a tiny erosion of market share, the next three – Phillips & Drew Fund Management, Schroder Investment Management and Barclays de Zoete Wedd Investment Management – all showed gains.

Amazingly, however, there are something like 150 management firms actively seeking business from UK pension funds, a total which has been steadily rising. For most the pickings are very thin. But the bulk of them are seeking specialist rather than balanced mandates.

And many of the more recent entrants are managers from the US, Japan and Continental Europe seeking to pick up geographical briefs.

A few years ago some of the pension consultants, who are influential in manager selection, attempted to shift the arguably excessive focus on past performance. They wanted to emphasise other factors, such as efficiency and levels of client service. However, this has not worked.

According to Mr Roger Urwin, who heads the investment section at consultants R. Watson, the "wish list" presented by trustees has become quite standardised. They want top performance, consistency and also the comfort given by large size.

US-style boutiques are generally shunned. A handful of top managers therefore gets nearly all the new business, at least for balanced management.

"Concentration in balanced funds will continue," he says. "But one does expect some changes at the top."

One crude way of assessing concentration is to look at the market share of the top four in the FT's annual table, as a proportion of the funds controlled by the leading 20 houses. In 1984 the leading quartet (not then quite the same as the present top four) had a share of 39 per cent. By 1988, this proportion had climbed to 44 per cent, and now it is 51 per cent.

The fruits of consistently good performance have been substantial. This year, for the first time, we are printing a table of investment results, following the introduction of a standard code of performance measurement for fund management groups, backed by the National Association of Pension Funds and other industry bodies.

Not all the individual management houses have supplied figures. Mercury is the most notable absentee, for reasons which it is reluctant to spell out, but are probably related to the fairly wide dispersion of the results of the hundreds of funds which it manages. Other managers give greater priority to holding individual client returns close to the house median.

At any rate, over five years it is clear that PDFM, Gartmore and Schroder among the big houses have achieved outstanding returns. They have therefore been the leading winners of new business. The small independent firm Newton has the best figures of all, and in consequence has been expanding rapidly too, although from a relatively tiny base.

BZWIM, another big success story, has a radically different approach. It is the market leader in index-tracking funds, and has picked up a lot of business from rival houses that have performed badly as active managers.

Top 25 segregated pension fund managers (at December 31, 1992)

	Value of segregated funds (£m)			No of individual funds			Total funds managed (£m)		
	1992	1991	% chg	1992	1991	% chg	1992	1991	% chg
Mercury Asset Management	33,148	27,970	18.5	445	434	2.5	46,528	39,617	17.4
Phillips & Drew Fund Mngt	22,260	16,702	33.3	282	247	14.2	23,974	18,673	28.4
Schroder Investment Mngt	18,400	13,800	33.3	228	181	26.0	36,100	27,700	30.3
BZW Investment Management	17,051	13,738	24.1	174	167	4.2	31,957	23,023	38.8
Prudential Portfolio Mngrs	10,455	9,449	10.6	83	79	5.1	54,700	43,133	26.8
Gartmore Investment Ltd	10,278	6,472	58.8	165	132	25.0	13,577	9,277	46.4
County NatWest Inv Mngt	9,358	8,833	5.9	96	102	-5.9	14,036	12,576	11.6
Fleming Investment Mngt	7,403	7,454	-0.7	121	114	6.1	30,447	26,627	14.3
Baring Global Fund Mngrs	6,130	5,204	17.8	102	107	-4.7	22,171	17,824	24.4
Morgan Grenfell Asset Mngt	5,716	5,325	7.3	97	95	2.1	20,477	16,099	27.2
Lloyds Investment Managers	4,905	4,317	13.6	49	52	-5.8	8,779	7,350	19.4
Henderson Pension Fund Mngrs	4,761	4,326	10.1	112	109	2.8	9,842	7,169	37.3
James Capel Fund Mngrs	4,508	3,847	17.2	44	39	12.8	8,864	8,369	5.9
Hill Samuel Inv Mngs	3,642	1,555	134.2	30	31	-3.2	22,080	18,215	21.2
Baillie Gifford	3,205	2,250	42.4	61	55	10.9	6,516	4,369	49.1
Cazenove	2,821	2,709	4.1	68	67	1.5	9,963	6,275	11.0
Hambros Bank	2,653	2,285	16.1	44	43	2.3	4,831	4,235	14.1
M&G Investment Management	2,431	2,064	17.8	34	36	-5.6	9,809	8,202	19.6
Invesco MIM	2,125	2,602	-18.3	91	133	-31.6	40,851	31,486	29.7
Newton Investment Mngt	1,991	1,368	45.5	62	54	14.8	2,951	2,035	45.0
Queen Anne's Gate Asset Mngt	1,875	1,346	39.3	14	10	40.0	1,884	1,346	40.0
Scottish Widows	1,848	1,417	30.4	23	23	0.0	18,100	14,500	24.8
Capital House	1,750	1,414	23.8	36	41	-12.2	4,300	2,802	53.5
Kleinwort Benson Pensions	1,668	1,241	34.4	63	58	8.6	10,818	9,847	9.9
Rothschild Asset Mngt	1,617	1,374	17.7	38	38	0.0	9,616	8,166	17.8
Total	187,380	154,030	21.7	2,703	2,598	4.0	489,165	394,249	24.1

Notes: Mercury Asset Management figures now cover MAM Group, rather than Institutional division only as before – 1991 figures are restated. Baring report 11 new mandates in 1992, attributing drop in client numbers to switching into pooled fund. James Capel Fund Managers combines business of JCFM and Midland Montagu Asset Management, which were combined in autumn 1992. Hill Samuel for first time include the in-house TSB staff pension fund.
Source: FT research by Ewan MacDonald

Altogether a group of six managers is tending to pull away from the rest, including Prudential Portfolio Managers – although PPM (along with MAM) was unfortunate enough to lose a £500m slice of the Marks & Spencer fund last year.

This happened not because of bad performance but because M&S wished to adopt a low risk indexed approach. Some of the money, incidentally, went to BZWIM.

Just outside the top six, managers such as Robert Fleming and County NatWest Investment Management have been finding the going tough, being unable to produce consistently good results.

The results of individual years may not mean all that much in such a long-term business as pension fund management, but 1992 turned out to be a brilliant one for Gartmore, which in a few years has moved from nowhere to sixth place in volume terms. It returned an amazing 26.3 per cent in 1992 against a Caps median of 20.6 per cent and a WM weighted average of 18.6. PDFM was not far behind in performance terms. According to the newsletter Global Money Management the top new business winners of 1992 included not only Gartmore, PDFM, Schroder and BZWIM but also Baillie Gifford, the current star of the Scottish firmament. BG is coy about its investment performance, but it has plainly had a very good run. For the time being, however, it is closed for new business as it concentrates on consolidation after its recent rapid expansion.

Outside the select few, it is a tough task for firms even to get on to the short list for new mandates. "There is overcapacity in the balanced fund business," says Roger Urwin. "Organisations caught in the middle with relatively poor performance have a difficult task to keep going in the pension fund field."

Robert Fleming, for instance, spoilt its performance numbers last year by moving prematurely back into the Japanese equity market.

Mr Iain Saunders, Fleming's investment chief, explains that he is working hard to get the discretionary balanced performance up to scratch, but in the meantime the company is focusing quite successfully on winning specialist accounts.

His aim is for steady rather than dramatic performance. "We aim to achieve a lower risk approach with our mainstream balanced product," he says.

Certainly there are different styles, even among the big balanced managers. Probably Schroder is currently the leading exponent of the consistent, just-above-median style which can be attractive to trustees who want to sleep at nights. But as it happened, Schroder was below the median in 1992.

Gartmore's more aggressive style was the one that paid off in a big way last year. Mr David Watts, the company's head of pension funds, says that Gartmore is unusual in deriving about half of its outperformance from strategy, whereas other managers depend mostly on stock selection.

Can Gartmore continue to perform as it gets bigger? Mr Watts is determined to persist with a similar approach. "Other big firms stop taking decisions, but we are backing our judgment," he says.

Performance of segregated funds (to December 31, 1992) (%)

	Over 5 years	Over 1 year
Newton Investment Management	17.2	21.1
Phillips & Drew Fund Management	15.6	23.5
Queen Anne's Gate Asset Mngt	15.1	20.5
Gartmore Investment Ltd	14.6	25.9
Schroder Investment Mngt	14.4	20.3
James Capel Fund Managers	14.0	20.7
Baring Global Fund Mngrs	13.7	22.3
Hill Samuel Investment Mngt	13.7	18.6
Rothschild Asset Management	13.7	20.3
M&G	13.4	23.3
Prudential Portfolio Mngrs	13.3	20.1
Caps Median Fund	13.3	20.6
Morgan Grenfell Asset Mngt	13.0	20.0
Hambros Bank	13.0	20.1
Henderson Pension Fund Mngrs	12.9	20.1
Fleming Investment Mngt	12.8	17.9
Lloyds Investment Managers	12.8	19.5
Invesco MIM	12.5	20.5
Scottish Widows	12.3	18.9
County NatWest Inv Mngt	11.7	16.7

Figures give median fund total returns, including property where applicable. Those managers who specifically exclude property are Queen Anne's Gate, James Capel and M & G
Source: FT research by Ewan MacDonald

Pooled Pension Funds*

	£bn
Scottish Widows	4.66
Provident Mutual	2.45
Confederation Life	2.24
Standard Life	1.80
Scottish Equitable	1.41
Prudential	0.98
Scottish Amicable	0.88
Mercury Managed Fund Service	0.74
Sun Life	0.61
Stanhouse Exempt	0.53

*Mixed with property as at December 31, 1992
Source: Caps

Schemes may become more expensive for sponsors, says Barry Riley

Cash flow squeeze tightens

FOR A few years in the late 1980s it seemed to many companies that their pension schemes magically paid for themselves. But now it looks – especially after the March Budget moves on dividend taxation – as though schemes will become a lot more expensive for their corporate sponsors. This will be painful for the companies but just might bring benefits to fund managers who have often been starved of incoming money.

The cash flow squeeze on the occupational pension fund sector intensified last year. According to the performance measurement specialists The WM Company, new money received last year amounted to only 1 per cent of initial market value, having steadily dropped from 12 per cent 10 years earlier, when schemes were often trying to make up accumulated deficits.

Given that the average income return on pension funds in 1992 will have been of the order of 4 per cent, it is evident that the bulk of income is now being used to pay benefits. According to the latest annual survey by the National Association of Pension Funds of its member schemes, more than half the schemes reported that the employer was enjoying either a complete contribution holiday or a reduction from what would be regarded as normal contribution levels. In nearly all cases, however, the employees are continuing to contribute as usual.

In a few extreme cases companies have actually negotiated a repayment of surpluses from their pension schemes. For instance, Courtaulds announced at the end of March that its scheme was 27 per cent overfunded, with a surplus of £189m. In a package deal with the trustees, benefits will be upgraded and Courtaulds will receive £50m in cash, after tax. Similar moves have been announced by Courtaulds' former subsidiary, the now-independent Courtaulds Textiles, and by Hoover.

Government statistics show that new investments of occupational pension schemes amounted to £16bn in 1990, £8bn in 1991 and only about £4bn last year. Fortunately for the investment managers the existing funds have been rising in value quite fast so the total value of pension funds has been rising (reaching £370bn by the end of 1992, according to WM) even though new money has tailed off.

Although investment managers have achieved high returns, this is not the main reason for the surpluses. Rather, the crucial factor has been the extraordinary buoyancy of British company dividends in the late 1980s (peaking at 18 per cent annual growth in 1989). Also, the substantial reductions in the workforces of many industrial companies earlier in the 1980s had the effect of reducing scheme liabilities.

Actuarial valuations are usually based upon projected income streams rather than on market prices, and rising dividends transformed the calculations during the late 1980s. But dividend growth slowed in 1991 and came to a grinding halt in 1992. Because scheme liabili-

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PENSION FUND INVESTMENT 3

US: **Patrick Harverson** discovers that horizons have widened considerably

Eyes are switching to overseas markets

THE US can seem an extraordinarily parochial place at times. Despite the dominant role the country plays in global politics, economics and business, Americans' understanding of the world outside their borders can appear shallow.

For many years there has been a similarly narrow approach to investing. A deep-seated reluctance among investors to consider putting their money anywhere other than the domestic equity and debt markets has ensured that billions of dollars in investment capital has never left US shores.

Well, not any more. In the past decade, US investors have gradually awakened to the potential for gains in foreign markets.

Even the pension funds, among the most conservative elements of the US investing community, have embraced the idea of opening their eyes to the world.

According to various estimates, just over $150bn in US pension fund assets was invested outside the country at the end of 1992, say Connecticut consultant firms Greenwich Associates and InterSec Research.

About three quarters of the total was in stocks and the rest in fixed-income securities. In comparison, in 1987 roughly $50bn of fund assets was invested overseas.

While growth in non-US investments over the past five years has been impressive, industry observers expect it to accelerate during the rest of the 1990s. In its latest study of pension funds, published last month, Greenwich Associates forecasts that total US pension assets invested overseas will reach $280bn by 1995. InterSec is even more optimistic. It forecasts that by 1997 non-domestic pension fund investments will have almost tripled to $430bn.

(It should be noted that this growth will not just come from new money flows, but potentially also from increased investment returns, which will inflate the value of funds' existing and new overseas assets.)

While these numbers seem large, they still only represent a fraction of total assets held by US pension funds, which according to InterSec stood at $3,315bn last year. In other words, less than 5 per cent of assets are currently invested abroad.

In contrast, pension funds in other countries are more global in their outlook. About 8 per cent of Japanese pension fund assets are invested outside Japan, while 26 per cent of UK assets are invested in non-UK markets.

Analysts, however, anticipate that interest in non-domestic investments will grow fastest in the US. InterSec sees 10 per cent of fund assets invested abroad by 1997, while it expects overseas assets held by Japanese funds to grow to 10 per cent, and assets held by UK funds to grow to 28 per cent, in the same period.

If there is an overriding reason why US funds are becoming more interested in international investing it is a desire for diversification – to find a new asset class that offers some kind of insurance against declining domestic markets and asset values.

Before funds started investing overseas, the domestic markets fully satisfied their investment needs. Until the rise of the German, Japanese and other Far Eastern economies, US assets accounted for more than half of the world's capital markets. Today, that share has dropped to about a third.

As Mr Arthur McCain, vice-president of InterSec, says: "Pension funds have to ask themselves: Why should I turn my back on two-thirds of the world market?"

The answer, he says, used to be: "I'm too scared to invest abroad."

Not any more. Along with the realisation that they need to go overseas to diversify their portfolios and spread their risk, fund managers have become more sophisticated, and have learned to understand, not mistrust, foreign markets. "The driving force [of overseas investing] is diversification, and an equal force is the reduction of fear," explains Mr McCain.

Diversification must be the key to the internationalisation of US funds because they are certainly not investing abroad because they have been impressed by the returns available outside the US.

Over the past five years (1988-1992), on an annualised basis, the Standard & Poors' 500 index has returned just under 16 per cent. In stark contrast, over the same period the dollar return on Morgan Stanley's Europe Australasia Far East (EAFE) index of 20 foreign stock markets was a meagre 1.6 per cent. Returns from overseas investments were no better in fixed-income markets. Merrill Lynch's US bond index returned 11.6 per cent between 1988-1992 on an annualised basis, while its non-North American bond index returned only 6.2 per cent.

While past performance has been poor, some of the recent overseas investing by funds undoubtedly has been based on the assumption that foreign markets will do better than domestic markets in future years. In particular, there is a feeling that while US bonds yields have probably reached bottom and have only one way to go, overseas bond yields, which have been much higher than US yields in recent years, are heading down. Similarly, some investors see little room for growth in US equities, but plenty overseas if undervalued foreign stocks and fast-growth economies can be quickly identified.

Although they are embracing globalisation, pension funds remain relatively conservative in where they put their money. The European and Japanese markets remain the biggest recipients of US money. The much-talked about "emerging markets" of Latin America and Asia have been targeted more closely in the last year or so, but essentially they still remain more talked-about than targeted.

Inevitably, the internationalisation of US pension funds assets has spawned interest among fund managers in currency hedging.

The use of hedging techniques to manage foreign exchange risk can be a double-edged sword for funds – it can reduce currency risk, but it can also limit the returns on overseas assets. After all, the dollar's poor performance against foreign currencies since the mid-1970s has militated against the need for hedging.

As one fund analyst, pointing out the recent record-breaking performance of the Japanese yen against the US dollar, explains: "If you were in yen assets over the last couple of months, you would have done pretty well. But if you'd hedged those assets back into the dollar, you would have lost a lot of the benefits."

While the majority of the hedging by pension funds remains of the passive variety – where it is used as a tool of currency risk management – a growing number of players are viewing hedging as a potential profit-centre in its own right.

A recent survey by Callan Associates and the magazine Pensions & Investments found that while 24 per cent of fund executives said they were using or were interested in passive currency hedging, 45 per cent said the same about active currency hedging.

The big Wall Street investment banks and securities houses are, understandably, extremely eager to win funds over to hedging as a means of exploiting currency volatility. For example, a number of US funds are participating in pools of managed derivatives that essentially speculate on currency movements.

Change in projected asset mix

Type of investment	1992 actual (%)	1995 estimated (%)
Common stocks		
Active	30.0	30.5
Passive	13.9	14.8
Total	43.9	45.2
International		
Active stocks	4.0	6.0
Passive stocks	1.4	1.9
Bonds	1.3	1.8
Total	6.7	9.7
Bonds		
Active	26.8	25.1
Immunised or dedicated	2.5	2.4
Other passive	4.3	3.9
Total	33.6	31.4
Guaranteed investment contracts	4.0	3.0
Equity real estate	4.0	4.2
Cash and short-term securities	4.1	3.2
Other	3.7	3.3

Source: Greenwich Associates

Continued from page 2

Cash flow squeeze tightens

Annual cash flow

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
New money (%) of initial market value	12	9	8	7	5	5	5	3	3	1

Source: The WM Co

ties, measured in terms of earnings growth, will have continued to rise by 5 per cent or so, the surpluses will have been eroded slightly last year, quite apart from the impact of contribution holidays and repayments from the funds.

What will happen to dividends this year? Well, most analysts believe that there will be a significant rise in company profits in 1993, perhaps of the order of 15-20 per cent, but on the other hand dividend cover is much less than it used to be. So dividends will rise only very slowly.

The immediate topic of great interest, however, is the change in the advance corporation tax rules announced by the chancellor, Mr Norman Lamont, in March. In helping companies with a problem of surplus ACT that they cannot reclaim out of tax on their profits, he at the same time hit out at tax-exempt shareholders, notably pension funds.

Instead of being able to claim back tax at the rate of 25 per cent on dividends, funds are now only entitled to a 20 per cent rebate. This means that whereas last year a £75 dividend could be grossed up to £100, this year it is worth only £93.75 to a pension fund. At a stroke, Mr Lamont therefore cut pension funds' gross dividend income by a proportion which works out at 6¼ per cent.

The overall impact of this is still unclear. A very few companies have raised their dividends to compensate. Income from fixed interest securities such as the government's own gilt-edged bonds is unaffected. So although a simple calculation would suggest that the actuarial value of a pension fund's UK equity portfolio should be reduced by 6¼ per cent, the actuaries may make slightly more generous assumptions about dividend growth. Moreover, the 40 per cent of portfolios invested, on average, in other kinds of assets will not be affected.

Realistically the overall effect could be to reduce valuations by about 3 to 4 per cent, and although in itself this is scarcely disastrous, it will bring forward the time at which full contributions must be resumed.

This will bring a little more cash into portfolios, but fund managers may need to be wary of negative factors too. Might the tax breaks on pension schemes be further reduced as the government grapples with its huge fiscal deficits? If this goes too far companies might wonder whether they really need to support such large and expensive schemes.

The recommendations of the Goode Committee on pension scheme law might also prove important. If it appears likely that surpluses will become the property of beneficiaries, companies will be extremely reluctant to fund their schemes generously.

Underfunding could become the rule. That would, naturally, not be in the interests of the investment managers who are remunerated in proportion to the size of the portfolios. But the completion of the Goode Report has been put off until the end of September, and legislation is unlikely to follow at all quickly. For the time being the likelihood is that the cash flow into pension funds will slowly begin to recover in strength.

JAPAN: **Wayne Aponte** sees the industry look abroad

Foreigners find favour

THE Japanese pension fund industry remains only partly open to international fund managers, who have struggled to compete with Japanese managers and their networks of corporate and public sector relationships.

Even after three years of financial reform and in spite of the huge sums that must be managed in Japan, few foreigners have made money in the pension fund business.

But there are shifts in the market. Japan Securities Dealers Employees Pension Fund, which manages Y330bn, hired recently Frank Russell Japan, a subsidiary of the US performance evaluation company, to select foreign money managers.

The fund then selected Invesco MIM Asset Management, Baring International Investment Management and J.P. Morgan Trust Bank to administer 9 per cent, or Y2.5bn each, of its new fund starting this fiscal year.

All Japan Surveying Enterprises Combined Employers Pension Fund, which manages Y52bn, hired Wyatt, a US consulting firm. After extensive meetings, the fund subsequently decided to turn over Y1bn to Capital International KK, a subsidiary of Capital Group in the US, from this month.

These accounts are thin when compared to the nation's more than 1,500 funds totalling about Y25,000bn of employee pension assets in the last financial year. They represent, however, the first time Japanese pension funds have used money-management consultants to choose companies. Foreign advisers are confident that these will hardly be the last cases.

Japan's corporate pension fund market has always been dominated by trust banks and life insurance companies. Investment advisory companies gained remarkably limited access to the management of corporate pension funds during April 1990, when the law was eased. The reforms allowed foreign advisers to manage employee pension funds, but only new money at least eight years old.

About 143 officially-approved advisory companies were allowed into the business, 38 of which were foreign. According to the Japan Securities Investment Advisers Association, these advisory management companies administered only about 1.1 per cent of all funds at the fiscal year-end in March.

The vast majority of accounts won by foreign advisers have been mostly from the government. The more lucrative pension fund accounts at private Japanese corporations

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EUROPE: **Tim Dickson** puts the view across the Channel into perspective

Cross-border barriers remain in force

PENSION developments in Europe at the moment can be viewed from two main perspectives.

One is that of national governments, faced with the nightmare of ever more expensive social security systems, and desperate to find new ways of supporting their populations in old age.

The other is that of the European Commission, eager to extend pension freedoms in the single market but frustrated by different and complex tax systems and jealously independent member states.

Many barriers to the free movement of EC goods and services were dismantled by EC directives on January 1 this year, but specific pensions legislation was a notorious absentee.

As things stand there is a proposed pensions directive before the EC Council of Ministers – but to the dismay of many practitioners the most ambitious goal of the man who originally drafted it, the then EC financial services Commissioner Sir Leon Brittan, is now missing.

The idea of cross-border membership of Community pension schemes has been shelved for the moment because of the technical and political obstacles to combining a wide variety of public and private EC systems – among them advance funding in the UK and the Netherlands, book reserving in German, and pay-as-you-go in France and the Mediterranean countries.

What remains in the directive are less radical, but not uninteresting, proposals to allow greater freedom to invest pension fund assets, and to allow funds to select an investment manager established in another member state.

The main impact of the latter proposal will be felt in Spain and Portugal, whose governments insist that pension fund managers must be locally based. Between them, though, the two remaining pillars of the directive raise the prospect of multinational company schemes currently administered along separate national lines being able to pool and centrally manage their assets in one place (without, of course, attempting to harmonise benefits).

IBM and Digital are on record as looking at this option seriously; Ford is also studying the options, but is thought to be more cautious.

The obvious attraction of setting up a pan-European common investment fund (CIF) is lower costs and greater flexibility. But, according to consulting actuaries Bacon & Woodrow, tax and other hurdles outweigh the benefits at the moment. "The cost savings ... will not be large enough for many companies to offset the administration disadvantages, but if a solution is found to the withholding tax problem the situation could change dramatically," says the firm.

For the moment high expectations that liberalisation would bring a rush of new business for the big London investment firms appear to have been disappointed. Relatively few big cross-border accounts have been won, and most managers are reported to be treading over the same relatively narrow plot of continental ground.

Main European pension markets

	Main funding	Asset size (US$bn)*	Estimated non-domestic investment
UK	Funded	644	26%
Netherlands	Funded	242	14%
Germany	Book reserve/ pensionkasse	114	4%
Denmark	Funded	40	4%
France	Pay-as-you-go with small reserves	23	3%

*As at December 1992 Source: InterSec Research

One problem is that continental funds have yet to be persuaded to embrace the cult of the equity, even if the buying of shares and non-domestic investments has gradually increased in recent years. Actuaries will no doubt continue to argue that a higher proportion of shares is justified to offset the risks of inflation – and that superior investment returns can substantially reduce contribution costs for companies – but the prize for investment managers should not be exaggerated.

The EC directive when it comes into force in the mid 1990s should limit the ability of the Belgians and the Danes to restrict investment to certain asset classes (measures, incidentally, largely aimed at financing these countries' large budget deficits). Its effectiveness, though, is still unclear. On top of the prudential controls already introduced into the draft directive in the wake of the Maxwell scandal, liberals fear that a further amendment may allow member states to fix maximum limits on specified asset categories. This might channel pension fund money back into bonds, once again serving narrow national interests. As the directive stands, governments will in any case be able to require that 60 per cent of the assets of a scheme are matched with the domestic currency or Ecus.

If the freedom of investment managers is perhaps the biggest issue of the moment, pension professionals like Richard Abramson, head of corporate pensions at Ernst & Young, have not given up completely on aspects of cross-border membership. In the wake of last year's discussion document published by the EC Commission, for example, he says there is still some hope that the something can be done to allow mobile workers to remain in their existing pension schemes without suffering any adverse tax consequences. At present, for example, an employee sent by his company from the UK to Germany will have to pay tax on pension contributions paid into a UK fund.

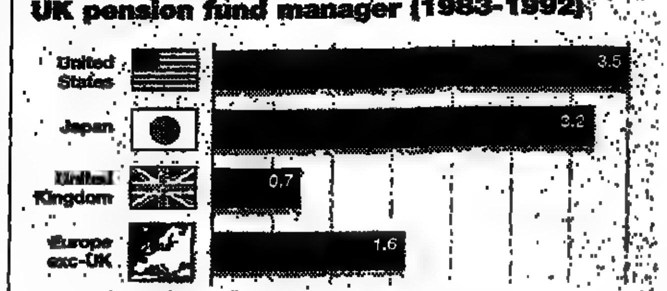
Not for the first time reform is strongly championed by the UK, but meets with a lukewarm response at best from other member states.

One reason is their fear of losing revenue which might help support social security systems groaning under new demographic pressures. Most European countries face the same dilemma: increase contributions (i.e. taxes) to finance the rising cost of state pensions, or reduce benefits. Both are politically unpalatable, which is why there are tentative moves by several governments to encourage more private sector participation.

The issue, for example, is certainly on the agenda of the new French government. Its predecessor laid out the options in a White Paper two years ago: though there were no recommendations for action a start has been made by allowing modest tax incentives for personal pension plans (the so-called *Plans Epargne de Retraite*).

Interest is also focused on Austria where 50 per cent of pension liabilities now have to be pre-funded by companies; Denmark, where companies now have to make some provision for their blue-collar workers; and Spain, where pre-funding is also in its infancy and further complicated by the government's insistence on strong member representation.

Performance of index versus average UK pension fund manager (1983-1992)



Source: The WM Company

SPECIALISATION: Are the days of balanced fund management over? asks **Norma Cohen**

Much easier to give it all to one manager

"THE days of balanced fund management are over," pronounced Tim Gardiner, partner at consulting actuaries William M. Fraser and Co, at an actuarial conference last autumn, thus prompting a stormy debate over exactly how pension assets should be invested.

Mr Gardiner's remarks were aimed at trustees who had failed to try to link their investment strategy to their liability profile.

The average balanced UK pension fund's 80 per cent weighting in equities may be inappropriate for very mature schemes with large current pension obligations and few contributors, he said.

The debate has been misinterpreted by some as being about the relative merits of bonds and equities. But among pension trustees, it has encouraged a trend already under way to try to link assets more closely to liabilities. And that, pensions consultants say, has led them to look at moving away from balanced management and into specialist funds.

"We will probably see an uptick in specialist mandates due to asset liability modelling," said Mr Robert Baker, pensions consultant at William M Mercer and Co. The most recent data available from the US-based research firm, Greenwich Associates, suggests that until now, there has been no great love for specialist fund management in the UK.

At the end of 1991, 51 per cent of UK pension funds surveyed used balanced managers exclusively, 14 per cent used specialists exclusively, 30 per cent used both and 5 per cent were managed internally.

If funds over £1bn are counted, specialists are somewhat more popular, used exclusively by 25 per cent of funds with only 32 per cent using balanced management exclusively. Roughly a third use a combination of the two and 11 per cent are managed internally.

"There are still a lot of trustees locked into balanced management. It's much easier to give it all to one manager and instruct him to make the asset allocation decisions for you," Mr Baker said. "There is a lot of comfort in being managed in a pool and having its performance measured against the average."

The reluctance of UK pension funds to seek specialist managers is in stark contrast to the US market where they are the norm. Mr Baker said that while many factors could account for the differing attitudes, it is helpful to note the involvement of corporate treasurers in US pension fund operations.

Because they are comfortable with more sophisticated financing techniques, they are more willing to take on the responsibility of asset allocation and understand how the use of competing investment styles could add value.

> At the end of 1991, 51 per cent of UK pension funds surveyed used balanced managers exclusively, 14 per cent used specialists exclusively

Indeed, the willingness of US schemes to award specialist mandates has proved to be a boon to a number of Scottish houses including Ivory and Sime, Murray Johnstone, Martin Currie Fund Managers and Baillie Gifford, who say they are winning so-called EFEA mandates – mandates to invest in Europe and the Far East.

But closer to home, interest in specialist fund management has most recently been aroused by the shifting demographics of pension schemes. Waves of redundancies at leading UK corporations have dramatically changed the maturity profile of many pension schemes and some trustees, reviewing recent actuarial valuations, are having to face some unpleasant truths. "Once you start thinking about asset allocation, you begin to think about specialist management," said Ms Alison Ramsdale, marketing manager at pension investment consultants Frank Russell, a US-based firm with expertise in analysing specialist management.

Ms Ramsdale acknowledges that there has hardly been a headlong rush into specialist management by UK pension funds. "Balanced managers have a very strong grip on the UK pension fund market and they have no interest in promoting specialist management," she said. Pension schemes using specialist managers are typically those of the UK subsidiaries of American companies such as IBM and Ford.

One UK fund which has is Rolls-Royce. Its investment manager, Mr David Colclough, says the scheme made the switch in 1986 after careful consideration and that the asset-liability mismatch was among their initial concerns.

First, he said, the scheme was achieving poor performance out of the three balanced managers it was using. Rolls-Royce could not control the overall asset allocation and as a result, its portfolio had a heavy bias towards fixed income and property and had missed the very hefty gains on equities.

Also, the fund managers frequently took sector bets which cancelled each other out, leading to a neutral effect on return and incurring substantial transactions costs in the process.

Also, Rolls-Royce found that not all balanced managers are good in all areas. The reporting process for balanced managers allows them to gloss over their weaknesses because results are reported in total, rather than by asset category.

Mr Colclough said that in 1986 asset-liability modelling was a relatively crude affair and that it had not been able to build asset allocation decisions on then-available systems. But the process has moved light years ahead recently and with more than 60 per cent of the scheme's members categorised as current or deferred pensioners, modelling plays a significant role in asset allocation.

The scheme has 50 per cent of its assets in UK equities, half of that in an indexed core and 30 per cent of its assets in overseas equities, also split into an indexed core. The scheme uses 10 foreign managers because it has found they typically perform better than UK managers do in those markets.

Ms Ramsdale said that Frank Russell's own research shows that in US markets, local managers do indeed outperform UK managers, although domestic managers as a rule do not necessarily outperform foreigners. Japan is the only other country where domestic managers have the distinct edge over foreigners.

But even in their home markets, fund managers report much more interest from pension funds in their specialist products, particularly "plain vanilla" UK equity pools. Mercury Asset Management, for instance, reports that its UK specialist business is among its fastest growing, having started from almost nil three years ago.

Home or away? **Philip Coggan** on options for investment managers

Decisive factor is performance

DOES it matter where a pension fund manager is based? Can an international portfolio be managed successfully from London or does the manager need offices in the countries concerned?

There is one powerful argument in favour of each viewpoint. The London-based managers would argue distance lends perspective; that they can be more objective about trends in an overseas market, whereas local managers can be "carried away" with prevailing bullish or bearish sentiment.

Local managers would retort the London-based managers cannot back up their claims. Figures from Combined Actuarial Performance Services Limited show that, if managers matched the indices, they should have achieved a cumulative return on overseas equities of 16.9 per cent per annum between 1982 and 1991. In fact, they earned just 14.6 per cent per annum over the period.

The argument from locally-based groups is that only by being in the country concerned can managers be alive to the trends. Colin Lever, senior partner at actuaries Bacon & Woodrow, says: "My gut feeling is that you do better in your own market than you do in other people's.

"Property in particular," he says, "is something that people think is the same in other countries as it is in their own." This, according to Mr Lever, is where they are led astray. "British investors have had disasters investing in Brussels property in the 1970s and in the US in the late 1980s. The Swedes and the Japanese were buying UK property at inflated prices in 1987-9."

According to actuaries, there is insufficient statistical evidence to prove the case one way or the other. Julia Hobart, senior consultant at Mercer Fraser, says the firm has done some work on this question. "It is a little inconclusive but there seems to be some mild evidence that there is merit in hiring a company which is based locally."

But, warns Ms Hobart, "performance may depend on the nature of the local market, particularly whether small cap stocks are outperforming large-cap stocks. You would expect the local manager to be better able to pick small stocks. The local manager is also more likely to outperform in a less efficient market."

Gordon J Clark, of actuaries Clay and Partners, says: "Locally-based investment managers may be able to trade more efficiently and quickly. Market timing and use of broker facilities may be evaluated more effectively."

These points are underlined as far as the US stock market is concerned by Mr Jim Conzleman, who is vice-president of Fleming Capital Management in New York, part of the London-based Robert Fleming group. "As far as large cap managers go in the US equity market the London-based manager is not at a great disadvantage to the locally-based adviser," he says. "Broker coverage is thorough and this is a pretty efficient area of the market."

But with small company stocks it is different. "The more companies one can research first hand and get to know the better off one will be," Mr Conzleman says. There

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Foreign advisers find favour

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generally have gone to domestic fund managers at banks linked to the company.

Potentially enormous opportunities await the foreign manager, but access to funds will remain limited by government regulations and the strategic ties between companies and financial institutions.

By 2010 about 18 per cent of the Japanese workforce is projected to be 65 or older, compared to only 11 per cent in 1990. Coupled with this increase in the nation's ageing society, is a substantial growth in the sum total of the nation's pension fund assets, expected to climb to Y250,000bn by the year 2000, from Y150,000bn in 1990, according to the Pension Fund Association.

But the freedom of investment choice is limited. Japanese companies must place at least 50 per cent of their assets in fixed income instruments, up to 30 per cent in foreign-currency assets, 30 per cent in stocks and 20 per cent in real estate.

Pension funds are accounted on book value, the amount paid for them, rather then their market value. Also, domestic fund managers are expected to reach a set realised rate of return each year at 5.5 per cent.

Mr Tak Wakasugi, professor of finance at the University of Tokyo and co-director of the University of Michigan's Mitsui Life Financial Research Center, said Japan's pension fund system rewards the fund manager who takes the least amount of risk. He added that changes in these regulations are necessary for the investment behaviour of fund managers to change.

"Under the present regulations, fund managers cannot move," said Mr Wakasugi, who chaired a recent committee sponsored by the ministry of finance on investment performance evaluation. The committee conducted an 18-month study that ended last year.

The drive to measure the nation's pension funds by their performance is currently in a deadlock, said Mr Wakasugi, because the participants in the industry fail to agree on how to implement the tool. Even an immediate adoption of performance evaluation will hardly liberalise the pension fund industry. "The change of one factor will not be enough," Mr Wakasugi added.

The decline of Tokyo's stock market from its peak of 38,915 in 1989 to its six-year low of about 14,309 last August pressurised the pension fund managers, and resulted in capital losses on the portfolios of institutional investors. However, in recent weeks, equity trading on the Tokyo Stock Exchange has rallied about 20 per cent from the beginning of this calendar year. Government fund buying through public funds fuelled the advance in March. Stock market analysts expect the advance to continue into the summer, when early signs of an economic recovery are expected. This direction will be followed by profit-taking before the end of the calendar year.

The fund of Y1,900bn run by the Japan Pension Fund Association (PFA), the nation's largest corporate pension fund holder chaired by Mr Noboru Terada, had net unrealised losses of 11 per cent at the end of the last financial year. The unrealised losses on stocks were more than 30 per cent, according to the organisation.

The yield on PFA funds was 3.84 per cent in the fiscal 1991, down from 6 per cent the year earlier. This decline represented the first time the association failed to achieve its annual target of 5.5 per cent since 1967, when it was established.

Mr Tsuyoshi Igarashi, assistant manager of general planning section in the Pension Trust Department at Sumitomo Trust and Banking, said declining stock prices prompted the use of some foreign managers to help administer billions of yen in pension fund assets. Foreign managers are seen to have more experience in their own markets and the ability to generate higher performance and lower risk on assets. Japanese institutions, in contrast, have lacked competition, which resulted in lower returns, particularly when the stock market declined.

Mr Tadaharu Goto, director of the corporate pension plans division at the ministry of health and welfare agreed. He said he expects extended use of foreign managers in the futures due to the need by domestic institutions to obtain better returns.

Mr Yugi Kudo, the president of Schroder Investment Management Japan, speculates that the ministry of finance took a step in that direction when it allowed foreign asset managers to place up to 70 per cent of their pension fund assets in foreign currency assets – a much higher percentage than domestic managers. But Mr Kudo added that general conditions for foreign investors are restrictive at best.

Foreign managers who entered the market early may ultimately benefit from a further opening of Japan's pension fund market. But it is unlikely that the cozy relationships between the nation's life insurance companies, trust banks and government will change in the short-term.

In the end, the ageing society has created a pressure of its own. Because Japan has the highest life expectancy in the world, higher yields on assets are desperately needed to offset future liabilities as the average age of the workforce increases.

QUANTITATIVE MANAGEMENT: **Norma Cohen** discusses index-matching

Less passivity, more activity

AFTER a year in which classic UK fund managers wildly outperformed the basic stock index, it has become fashionable to question the future of index-matching as a technique.

"Is Indexation Dead" is the subject of a recent seminar offered by County NatWest Investment Management which has between £6bn and £7bn under management in so-called indexed funds. Mr Rick Lacaille, associate director of CNWIM, said that a widely-publicised set of figures from the pension fund industry performance measurement services are partly to blame.

Combined Actuarial Performance Services (CAPS) found that the average "active" manager outperformed the FT-A Actuaries All Share Index by 1.8 percentage points, returning 22.4 per cent on a UK equities portfolio against a return of 20.6 on the FT-A. Similarly, WM Company, whose universe includes more of Britain's larger pension funds who actually use indexation, also found outperformance but by a much smaller margin.

Indeed, the CAPS figures show, active managers outperformed passive "index-tracking" managers in two out of the last three years. In a market which has never been hospitable towards mathematical approaches to fund management, do the latest figures sound the death knell for passive quantitative management?

Mr John Clamp, chief executive of CAPS, asks: "Is indexation dead? I don't think so by any measure." CAPS data over the past 10 years, for instance, showed that UK active fund managers, on average, simply equalled the FT-A. Between active and passive managers, there is little difference in return while passive managers offer the advantage of far lower fees. While the active managers of balanced pools may charge 15 to 30 basis points of funds under management, passive index managers charge no more than five.

Ironically, it has been the poor performance of active managers over the past 10 years which has driven pension fund clients to consider passive quantitative fund management at all. Mr Andrew Threadgold, former chief executive at PosTel, the UK's largest pension fund which runs 60 per cent of its £20bn in funds in a passive manner, said that the scheme was driven to choose passive quantitative fund management by poor performance in the late 1970s.

But overall, unlike the US, where quant has been a mainstream approach for nearly 20 years, the pension fund market has been slow to follow. The staple "quant" product has been an index-tracking mechanism in which the fund manager builds a portfolio with all the equities in a given index in proportion to each share's weighting in the index.

Mr Clamp estimates roughly 5 per cent of the UK pension fund market is managed using index-tracking techniques against about 14 per cent in the US. The largest index-tracking fund management firm in the UK is Barclays de Zoete Wedd which has won a number of well-publicised mandates in the past year.

However, the area of quantitative fund management earning the most interest in the industry is not passive indexation but a style of management which loosely falls under the rubric of active quantitative fund management.

And, while many of those firms offering the product are the same as those who pioneered passive quantitative technique, the two are in fact worlds apart. Quite simply, it is the marriage of analysis by traditional fund managers with the computer technology of indexers. "We try to replicate with a computer what a traditional fund manager would do by hand," says Mr Kevin Rowe, partner at Buchanan Partners, an active quant boutique which specialises in the use of equity derivatives. "The difference is risk control."

Mr Peter Lockyer, partner at consulting actuaries Clay and Partners, says that the market for active quant services has broadened significantly. While there remains limited appetite for discrete products managed in that fashion – probably no more than £5bn is managed in this fashion in all of Britain – the mainstream active fund managers are quietly incorporating the approach into their own stock selection and asset allocation process.

Indeed, Mr Andrew Rudd, chief executive of Barra Inc, the largest database provider for both active and passive quant fund managers, says that 18 of the 20 largest fund managers in London are using his products. Among other things, quant methodology can be used to check for unintended bias in the construction of a portfolio such as an overweighting in small companies, he said. Thus, the extent to which quant applications are gaining currency is far larger than the funds under management suggest.

The basic active quant product involves the use of Tactical Asset Allocation (TAA). According to Clay and Partners, this involves establishing benchmarks showing how a fund's assets would be allocated among different asset classes when all classes are priced fairly to each other. If mispricings occur, then value can be added by making a tactical decision to move away from the benchmark.

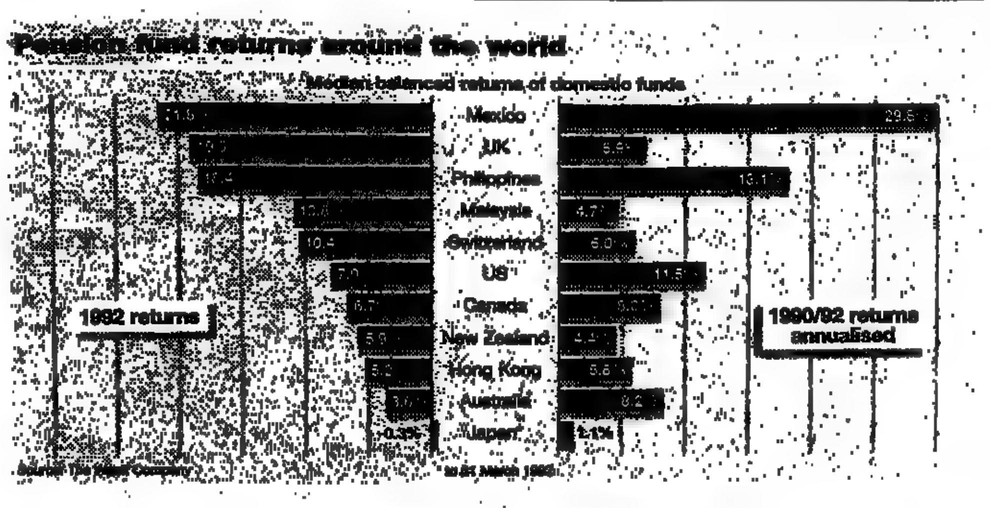
Similarly, firms are also offering stock selection products which require breaking down components of a company's performance and isolating those characteristics deemed most likely to emerge in stocks which outperform. Managers may offer TAA, a stock selection product or some combination of the two. Often the product includes a currency overlay intended to reduce the risks from fluctuations.

While quant firms differ from each other in the system they use for stock selection and the variables they focus on, most use some value-oriented approach. What can make the difference between the success or failure of a strategy is little more than the ability to pick the right variables.

But Mr Lockyer, whose firm has conducted an analysis of the relative performance of several active quant managers, says that the problem is that market conditions are subject to change. The variable which helped to pick stocks in one cycle may become irrelevant in another. "One of the points about quant is that the world changes and then you have to re-think your whole strategy."

Moreover, many quant managers suffered from the absence of an actual investment track record. Many have produced sales tools which hypothecate how the fund would have performed over the previous five years. "The truth is that backtesting doesn't work," Mr Lockyer said. "Everyone's backtest shows spectacular results."

One firm which has successfully attracted clients is Hill Samuel Asset Management which has been running a discrete product for five years and has been able to outperform the FT-A in each of those years. However, five key staff have recently defected to State Street where they plan to offer a similar product and prospective clients may question the applicability of the track record to present conditions.



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are also dealing pitfalls.

"One is better served by having one's own trader acting on the spot than by leaving open orders from London, only to come in next morning and find that the deal was put through at the least advantageous price of the day."

However, Mr Lever warns it might not be sensible to compare the international manager's performance with the local index. "If a UK pension fund invests in Australia, it might well underperform the local index. But it is probably going to Australia to gain exposure to stocks which are not available in the UK, particularly natural resources companies. If that part of the market did badly, you would underperform."

One UK fund manager says overseas managers have had a good chance to outperform in Japan. "Straightforward value techniques have knocked the pants off the index over the past few years and the index has knocked the pants off the local managers. Quantitative techniques can easily be applied outside the country concerned. The more complex the market, the better it is to be standing at a distance."

It is a debate which is likely to continue for some years. The question is inevitably bound up with the issue of whether managers employ a general manager or specialists for the separate sections of their portfolios. Ms Hobart says those who follow the specialist route tend to favour local managers.

Mr Clark says: "The use of locally-based investment managers necessitates a strong, centrally-based asset allocation decision-making process. If not, there is a danger that there is no overall perspective of global relative market valuation levels." He adds: "Thematic approaches arising from the asset allocation process tend to become blurred through the use of local managers."

UK-based managers retain a strong position – indeed they have been quite successful in marketing themselves to US pension funds as managers for the global element of portfolios. Overseas fund managers will increasingly come to the UK to claim their shares of the UK pension fund market.

Meanwhile, UK management companies may well use a global network of offices, if they have one, as a key selling point in their services. But, says Mr Lever, "most trustees would regard the proof of the pudding as in the eating. The question is: has the network done them any good?" In the end, it is performance, not rhetoric, which will settle the debate.

PROPERTY: institutions are still fighting shy

Few signs of a return to favour

THE UK commercial property market may be approaching the bottom of its cycle, but pension funds are not enthusiastic about returning to it.

Although lower interest rates and the devaluation of sterling last September prompted a flicker of interest in commercial property from overseas investors and private buyers, the institutions have largely stayed on the sidelines.

According to the Central Statistical Office, institutional investment in UK commercial property totalled £937m last year, less than half the previous year's £1.95bn. In the last quarter of the year insurance companies and pension funds made net sales of £77m of property.

Within the institutional sector, pension funds are markedly less enthusiastic than insurance companies about property investment, according to a Gallup poll for CSW, a property magazine, at the start of this year. Some 31 per cent of pension funds expected to disinvest from commercial property, compared to 23 per cent of pension funds which expected to invest. The comparable figures for insurance companies were 53 per cent and 12 per cent.

The pension funds' low level of interest in property investment cannot simply be ascribed to a belief that property will continue to fall in value. More than half the pension funds polled by Gallup thought that a meaningful recovery in UK property would take place in the first half of 1994; 38 per cent thought the second half of 1994.

Indeed, even bearish commentators concede that the case for buying property has improved. Property yields, which average around 10 per cent, are higher than gilt yields for the first time since the 1960s. The banks' reluctance to make new property loans has severely limited the prospects for new property development. That means that when demand from tenants eventually returns to the market, rents can be expected to rise.

The result has been reasonably strong demand for high yielding property with financially secure tenants, the income of which more than covers their financing costs. Retail warehouses, distribution warehouses and industrial sheds are most in demand from institutions, according to a survey by the Corporate Intelligence Group.

However, the general lack of enthusiasm by pension funds for most of the commercial property sector is unlikely to be rapidly reversed.

For one thing, several of the traditional selling-points of property have been undermined in recent years. The standard institutional lease, with its 25-year duration and upward-only rent reviews, has come under pressure from tenants demanding concessions and incentives.

For another, the belief that property added counter-cyclicality and stability to an investment portfolio has been found wanting in the present downturn.

Another traditional attraction of property, its role in hedging against inflation, has diminished in its perceived importance as prices have come under control, although a resurgence in inflation over the next few years might renew its appeal.

Another explanation of why property is out of favour is that its performance over the past decade has been extremely poor. The annual rate of return for direct property over 10 years, five years and one year was 7.7 per cent, 6.2 per cent and -0.1 per cent, respectively, compared with 18.8 per cent, 14.7 per cent and 20 per cent for the FTA All Share index or 11.6 per cent, 10.6 per cent and 15.4 per cent *for gilts*.

Furthermore, pension funds' cash flow is being squeezed which is limiting their ability to invest. In bidding for investment funds, property is having to compete with other asset classes. The government's burgeoning borrowing requirement will make institutions heavy buyers of gilts, limiting their appetite for non-gilt assets.

That said, tax changes reduced pension fund's dividend income from equities by

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CURRENCIES: 1992 gains have been unusually strong, says **Norma Cohen**

To hedge or not to hedge

AFTER a year like the last one, pension fund managers may well ask themselves if there is any good reason to bother hedging currency exposures.

Consider the facts. Last year, fund managers investing in US dollar-based assets earned an additional 23.6 percentage points once the currency had been converted into dollars, according to Combined Actuarial Performance Services (Caps). Against the yen, it was equally impressive at 23.7 per cent, 15.7 per cent against the D-Mark and 15.9 per cent against the French franc.

"We have found it is not worth it to hedge," said Caroline Burton, investment director at Guardian Royal Exchange. "We found last year, for instance, that the currency gains in the Japanese stock market wiped out our losses there," she said. According to Caps, the Japanese equities market returned negative 4.7 per cent last year, even when currencies were taken into account.

Mr Robert Baker, pensions consultant at William M. Mercer, said that hedging currency exposures remains the exception rather than the rule at most UK pension funds, in spite of the increasing percentage of assets invested abroad.

That partly reflects the gains which funds have recorded in recent years from currencies. The Caps data show that within the past five years, 1992 currency gains have been unusually strong. But in the previous four, they have been negligible and any effort to hedge would have been overshadowed by the cost.

In the four years to the end of 1991, the US dollar appreciated 0.1 per cent against sterling, while the yen sank 0.6 per cent. The French and German currencies recorded gains of 0.9 and 1.0 per cent respectively.

Mr Alan Greenhorn, formerly head of quantitative active management at Hill Samuel Asset Management, said the group had made a study of the benefits of hedging for pension funds. "In the long run, we found that the costs of passive hedging far outweigh the benefits," he said.

Mr Jeffery Davis, of State Street, the Boston-based bank and fund manager, said that the benefits of currency risk management rise with the degree of overseas exposure. "It all really depends on what proportion of a pension plan is devoted to non-domestic assets. If it is five to 10 per cent, as is common in the US, then the benefits are insignificant in terms of reducing volatility," he said. "But if you have 20 per cent or more abroad and your interest is in reducing volatility, then there is some benefit to hedging."

But Mr Greenhorn, who now heads an active quant fund management team at State Street, said increasingly there are reasons to consider the use of some currency overlay product for portfolio management.

In currency overlay theory, managers attempt to separate out currency from other investment decisions and then hedge the currency risk as appropriate.

The process is gaining widespread use among American pension fund managers, who ironically have a lower percentage of non-domestic assets than do their UK counterparts.

But the product is still far from mainstream in the UK and its appeal is greatest to those who are already sympathetic to mathematical applications of fund management theory.

"There are really two investment decisions," Mr Greenhorn said. "One is whether you like the currency and the other is whether you like the market. And it's unlikely that your preferred currency is also going to be your preferred market," he said.

Moreover, fund managers may not realise just how exposed they are to certain currencies. Many companies whose shares are held will themselves derive a significant portion of their revenues from, say, the US or Japan, and buying that share is furthering that exposure.

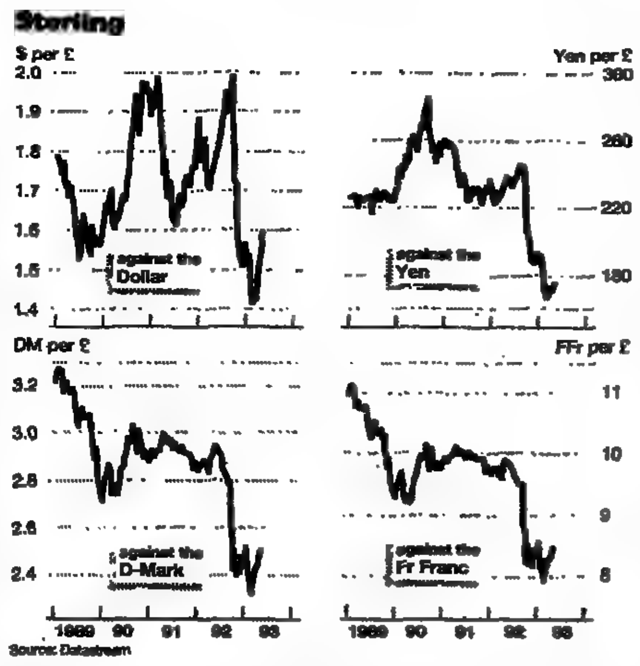
Mr Robert Clarkson, general manager of investment at Scottish Mutual, said that he has been using a currency overlay system for that reason, among others. The strategy makes significant use of currency derivatives, he said.

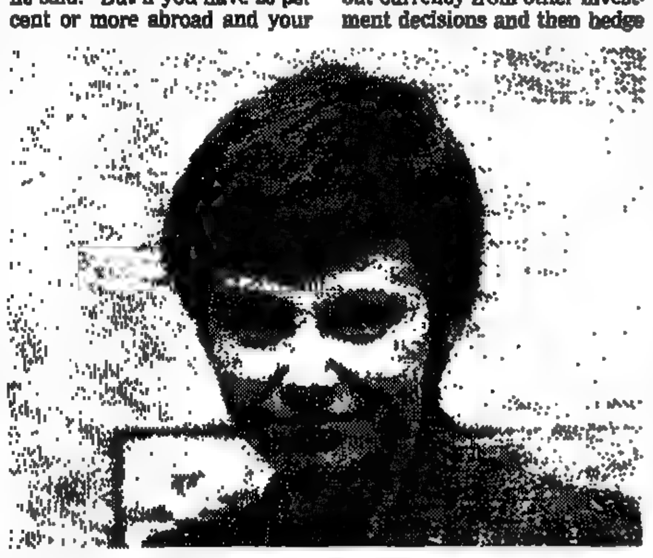
"We regard the currency decision as different from the underlying market," he said. For instance, while the Japanese stock market currently looks attractive, the yen is less so. "We would have a lower yen exposure through the forward currency market," he said.

Scottish Mutual also uses derivatives to move quickly into a market where the stock selection process has not yet been completed. He purchases forward contracts and then as underlying stocks are purchased, unwinds the position.

However, pension schemes have been chary of such techniques because of the dim view that the Inland Revenue takes of those activities. While investment is tax-free, trading is not and gains on those strategies could well attract capital gains tax.

Sterling




Caroline Burton: 'We found last year that the currency gains in the Japanese stock market wiped out our losses there'

DERIVATIVES: **Tracy Corrigan** reviews developments in recent years

A measured step forward

IN THE past few years, the use of derivatives by UK pension funds has increased substantially, although fund managers still tend to confine themselves to a limited number of products, designed to serve a limited number of purposes.

Several important developments in recent years helped pave the way for greater use of derivatives.

First, the tax position of derivatives was clarified in the 1990 Finance Act. A year later, the Securities and Investment Board produced rules on "efficient portfolio management", outlining when the use of futures and options was an acceptable practice.

But fund managers agree that the most important landmark was the publication of guidelines on performance measurement of derivatives last year. The guidelines, developed by the London International Financial Futures & Options Exchange (Liffe) and Mercer Fraser, the actuarial consultancy, were considered particularly important, because they allowed trustees to assess more easily whether fund managers were using futures and options for investment or hedging purposes, or for taking more speculative positions.

These standards "laid down a benchmark," according to Mr Tony Whalley, investment director of Scottish Widows. "The vast majority of pension fund trustees take the view that if investment managers want to use derivatives, they should be allowed to do so," he said. However, certain pension funds cannot use derivatives without changing their trust deeds.

The fact that these standards were approved by the National Association of Pension Funds gave further weight to the argument for derivatives.

Last November, the Pensions Research Accountants Group (Prag), an association of 200 UK pension fund practitioners, published a further document on the use of derivatives by fund managers. Prag built on the work by Liffe and Mercer Fraser, but broadened the approach to encompass reporting and accounting of derivatives, as well as performance measurement.

FT-SE 100 futures

Year	Average daily volume (number of contracts)
1988	7,838
1989	4,079
1990	5,707
1991	6,828
1992	10,310
1993 (Jan-Mar)	12,042

Source: LIFFE

In addition, Liffe has run regular derivatives courses designed specifically to suit the needs of trustees, which are credited with fostering a broader understanding of derivatives among pension fund trustees.

But many pension funds, sometimes in practice and sometimes because of strict investment guidelines, limit themselves to a specific range of strategies.

The most common use of derivatives is still for asset allocation. If a fund manager buys futures on the FT-SE 100 stock index and holds a cash deposit, he is creating a synthetic equity asset. It is usually cheaper and quicker to gain exposure to the market by this method than by buying a portfolio of stocks in the cash market. For example, if it is decided that a fund should shift some exposure from the UK to the US stock market, two trades executed in the index futures market could effect this change of strategy.

A shift in exposure between different asset classes, such as bonds and equities, can also be executed in the futures market.

As there has been a broad shift of focus away from stock picking in favour of asset allocation, the use of futures for this purpose caught a wave of interest among fund managers.

Similarly, futures are often used for cash flow management. For example, a fund manager faced with a sudden inflow of funds may decide to buy index futures immediately, creating a breathing space before deciding on which stocks to buy, or looking for bargains.

Another reason for the use of derivatives for asset allocation is that it is one of the most straightforward applications of derivatives' technology.

The other most obvious use for derivatives is hedging exposure. If a fund manager buys equities in the cash market and sells the future, he is hedging against a fall in the stock market, (since the futures position will gain if the market falls).

But, because the performance of a pension fund manager is often measured against other funds, rather than against an index, a fund manager may be unwilling to pay for such "insurance", by buying options, or to forfeit some of his potential gains by taking a position in the futures market. This also explains the relatively small use of derivatives for "index-tracking", compared with other markets such as the US.

According to Mr Trevor Robinson, director, derivatives, at Fidelity International, trustees are often convinced of the value of hedging, "but actuaries are not keen, because from an actuarial point of view, capital value is less important than dividend payments."

Generally, futures are far more widely used than options, which are more complex derivative instruments. Futures are much easier to value, and therefore more straightforward to use.

A futures contract obliges the holder to buy or sell at a set price at a future date; an option gives the holder the right, but not the obligation, to buy or sell at a set price at a set date.

Futures are of particular use in asset allocation, while options can be used for stock selection.

Options are generally used to modify exposure, and their effect on portfolio performance is asymmetrical – for example, a fund manager can buy a put option on a stock to protect against potential losses in the stock, without losing any potential gains. Because of the asymmetrical movement of options, the price does not indicate how the option would react to changes in the underlying market.

Although some pension fund managers sell options against their stock portfolios, the use of options is still limited.

Similarly, most fund managers prefer to deal on exchanges, rather than in the over-the-counter market, largely because of liquidity and credit risk.

GLOBAL BONDS: **Richard Waters** checks asset allocations in the UK

Still only negligible exposure

BONDS may have provided the best overall investment returns in the UK since the beginning of the 1990s, but pension funds have maintained their almost negligible involvement in the fixed income markets. If this is the decade of bond, in the way that 1980s was the decade of the equity, then the asset allocation decisions of pension funds are proving slow to register the fact.

In the past three years, the return from UK bonds averaged 15 per cent a year, compared with 10.1 on UK equities, according to Combined Actuarial Performance Services Limited (Caps), the performance measurement company. That has reversed the pattern of the last decade, when returns on UK bonds, at an average of 12.6 per cent a year, lagged the 18.8 per cent return on UK equities.

Yet the median UK pension fund has continued to maintain only a negligible exposure to the bond market. From a 21 per cent share 10 years ago, UK bonds accounted for only around 4 per cent of pension fund assets at the start of the decade, and over the past two years has levelled out at three per cent.

The growth of holdings of overseas bonds, particularly in 1989/90, has helped to swell fixed income exposure to some 9 per cent in all, according to Caps. With the UK debt repayments of the 1980s, and the consequent shrinking of the gilt market, pension funds had to look abroad to maintain their involvement in bond markets.

The relative outperformance of bonds and the starkly different picture presented by the UK's finances could be set to change this. "One thing that characterises pension fund investment is that things always happen with a time lag. I would expect a change in the percentage [of investment in UK bonds] by the end of the year," says Mr John Clamp, chief executive of Caps.

One simple reason for buying more bonds: because the UK government – and indeed many other governments – are going to have to sell more to finance their budget deficits. Pension funds may not be in the front rank of investors queueing up for gilt-edged stock, but if private investors, insurance companies and more fickle foreign investors cannot be persuaded to buy more than £3bn of gilts a month, then yields will have to rise to a level where other investors are drawn to the market.

Average asset distribution

	UK equities %	Overseas equities %	Overseas bonds %	UK fixed %	Index-linked gilts %	Cash %	Property %
1983	49	17	0	21	2	3	6
1984	48	19	0	20	2	4	7
1985	53	18	0	16	2	5	5
1986	54	21	0	15	2	4	4
1987	55	24	0	12	2	4	3
1988	59	17	0	12	2	7	3
1989	57	18	1	9	2	9	4
1990	56	25	3	4	2	7	3
1991	57	20	5	5	2	9	2
1992 (start)	59	21	6	3	2	4	2
1992 (end)	60	23	6	3	3	4	1

Source: Combined Actuarial Performance Services Ltd (Caps)

start of the decade, only marginally lower than the return on equities. Since sterling left the ERM, the Bank of England has sold around £2.5bn of index-linked gilts, with pension funds apparently active buyers.

Other factors also suggest a greater exposure to fixed income investments in the future. The reduction in advance corporation tax announced in this year's Budget will reduce the attraction of equity dividends to tax-exempt investors like pension funds, adding to the relative attraction of bonds. And holdings of bonds are widely expected to rise as pension funds become more "mature" (that is, have a higher proportion of retired members, encouraging them to match their liabilities to these people by holding fixed income securities.) Such funds are increasingly turning to tailor-made benchmarks, which contain a higher proportion of bonds than the industry average, against which to measure their performance.

The median UK pension fund has maintained only a negligible exposure to the bond market

Pension funds' holdings of gilts fell during the 1980s as the UK government repaid part of the national debt. It seems logical to expect those holdings to rise again now that the government is borrowing with a vengeance.

Such a shift in investment approach will be dressed up in more sophisticated arguments than this, of course. Sterling's brief disinflationary sojourn in the European exchange rate mechanism may have come to an abrupt end last September, but the case for holding bonds rather than gilts remains a strong one. The real yield on 10-year gilts is hovering around an unlikely 6 per cent, if inflation can be held down at current levels. And for investors who fear the resurgence of inflation, index-linked gilts have offered an attractive return – 8.4 per cent since the

While a noticeable swing towards gilts has yet to be seen, the emergence of international bond investment has brought with it a greater use of specialist fund management arrangements. Some funds, rather than tailor a benchmark for their main balanced fund, have preferred to spin off separate fixed income portfolios. Of the £4bn of fixed income investments managed by Mercury Asset Management, £1.6bn takes the form of specialist briefs from particular funds or investments tied to benchmarks with a higher-than-average bond weighting, said Mr Nigel Hurst-Brown, vice-chairman.

The push into overseas bonds has been largely tactical in nature, rather than strategic: that is, fund managers in pursuit of higher returns have sought and been allowed leeway to invest in overseas markets. If the UK only accounts for 3 per cent of the global bond market, runs the argument, then why limit yourself to such a small arena?

Most fund managers also appear to have run such portfolios with unhedged currency exposures, counting on a continuation in the long-run fall of sterling against most principal currencies. Beyond this, there appears to have been little strategic motivation for the move into international bonds.

"Overseas bond investments [by pension funds] increased sharply in the late 1980s, but could decline just as quickly," says one big UK pension fund manager. That could be especially true if funds move back into gilts in any volume, a step that could be supported in the short-term by a simple switch from international to UK bonds without any change to overall investment parameters.

Few signs of a return to favour

Continued from page 5

6.2 per cent, which may lead them to switch some of their holdings into higher yielding assets such as gilts and direct property.

Another factor militating against property investment is that the proportion of property in some portfolios has shrunk to a point where it may be more trouble than it is worth.

Property's underperformance during the 1980s, together with the funds' ability to spread their investments into overseas equities after exchange controls were lifted in 1979, limited the role of property to institutions. The average weighting of property in pension funds valued between £100m and £1bn fell from more than 13 per cent in 1980 to 4 per cent in 1991, according to the WM company.

Property's role is particularly inconspicuous in smaller funds. Pension funds with under £100m in management have less than 2 per cent of their assets in property, while funds of more than £1bn have a weighting of more than 10 per cent. But even though small funds are put off by property's illiquidity, management costs and the relatively large number of properties needed to obtain sufficient diversification, their property funds have outperformed their larger rivals, according to recent research by Gerald Eve, chartered surveyor, and Investment Property Databank.

The annualised mean total return of small funds, with less than £65m of property, was 11.88 per cent and 10.4 per cent over five and 10 years respectively. For large funds, the return was 10.59 per cent and 9.53 per cent respectively.

The most likely reason for this is that large funds had a greater exposure to property development and avoided City offices because of their large lot sizes. They also benefited because their retail investments were mainly in standard shops rather than shopping centres. "Any economies of scale which large funds possess appear to be more than offset by the small funds' greater agility," said Mr Eve.

The large variations in the performance of different funds underline the scope for bucking the trend by making shrewd purchases.

The minority of funds that are buying commercial property may do well from investing at a time of low expectations and little competition. For the present, however, commercial property shows few signs of returning to favour.

Vanessa Houlder

CUSTODY: **Norma Cohen** reviews the moves to tighten control in the aftermath of the Maxwell scandal

Reforms signal a more regulated approach

IT IS one of the quirks of the UK's investment scene that the custody business is the one sector to escape unregulated. All indications are that this anomaly is about to come to an end.

The death at sea of Robert Maxwell, chairman of Maxwell Communications Corporation, sparked an investigation which revealed that more than £440m was missing from pension funds he controlled.

In the aftermath of the Maxwell scandal, a government appointed panel is considering a wide range of options about how best to reform rules for occupational pensions. Not least among these are some which relate to custodians.

Meanwhile, the debate about custodial arrangements is occurring at a time when UK pension schemes are taking a much harder look at their own costs, including the costs of custody. A recent study from the National Association of Pension Funds highlights custody as one of the services where there are substantial hidden costs to the client. A study from management consultants Booz Allen & Hamilton indicates that no more than 50 to 60 per cent of custodians fees are derived from the formal charges levied on clients with the remainder coming from stock lending of client portfolios, interest balances and foreign exchange activities.

Aided by the work of pensions consultants, some UK funds are taking an increasingly critical view of their own custodial arrangements, both from a cost perspective as well as safety and service. Some large in-house funds, such as ESN Pension Management, the scheme of the privatised electricity companies, have embarked on a campaign to force fund managers to "unbundle" their custodial and fund management services.

This has struck a raw nerve in the fund management industry which is fighting hard against it. Mr Gordon Lindsey, managing director at Mercury Asset Management's Custody and Investor Services Division, says that it cannot charge for the services separately. "If you wish to use a separate custodian, you may. But we will charge you the same fee," he said. He argues that MAM would incur costs anyway in adjusting its data systems to communicate with other custodians.

However, in the US, egged on by pensions consultants, pension schemes have forced custodians to unbundle fees and cut charges. One large state pension scheme has struck a deal with its custodian under which the custodial service is free as long as the custodian may earn a turn by lending the scheme's securities. If stock lending dries up, the scheme will have to pay $400,000 to $500,000 a year in custodial fees.

But in the UK, the immediate headline issue in custody is that of safety.

Using a series of transactions labelled by Mr Maxwell's in-house and independent fund managers as "stock lending", ownership of shares passed from the fund managers and custodians to other Maxwell-owned companies. Although the practice bore little resemblance to formal stock lending in which securities never actually change hands, the activities have thrown open the whole question of how to ensure safe-keeping of assets.

The government-appointed Goode Committee, named for its chairman, commercial law professor Roy Goode, is considering whether, in the light of the Maxwell affair, pension schemes should be required to designate a custodian for its assets which is separate from the fund manager. The commercial significance of this question is not lost on either fund managers or custodians and the battle lines have been quickly drawn.

On one side are the Forum for Independent Custodians, a group organised by Royal Bank of Scotland, the largest independent custodian for UK pension funds. On the other side are the leading fund managers, all of whom operate their own separately capitalised custodial subsidiary.

Robert Maxwell: his death sparked an investigation

The National Association of Pension Funds has suggested a more modest measure which would require the use of an outside custodian for pension schemes which are managed in-house. That suggestion has upset the UK's largest banks which are both fund manager and custodian for their own pension schemes.

The sums are not inconsiderable. More than two-thirds of the assets of Lloyds Asset Management belong to its own pension schemes and Barclays de Zoete Wedd manages more than £6bn of its pension scheme.

Members of the Goode Committee are circumspect about their likely recommendations on custody. However, it is believed unlikely that they will insist on outside custodial arrangements provided those of the fund manager are separately capitalised and properly managed and audited.

Another issue yet unresolved is whether Maxwell-type theft could be avoided if securities were required to be registered in the name of their actual owner. Mr Michael Robarts, of Fleming Investment Management, argues that designation not only offers little protection to clients but will also slow down the settlement process, raising costs for everyone and increasing risks. "Chaos will ensue," he promises. And because designation will be under the control of custodians, there is little to stop a larcenous outfit from simply designating itself as the ultimate owner of share certificates.

Mr Robarts argues that instead of designating securities in the name of clients, there should be tighter controls on custodians and strict limits on which trustees have the authority to give orders for transfers of securities to the custodians.

The suggestion seems to be falling on fertile ground. Already, several accountancy firms have proposed model audits for pension fund custodians designed to help trustees feel assured that the securities they think they own are actually there. Even without regulation, this procedure is increasingly likely to be built into a scheme's procedures.

Meanwhile, some members of the pensions industry have suggested that the UK should adopt US-style Erisa legislation which requires custodians to refuse to carry out orders which they believe or suspect are improper. That view has been discussed with the City's chief watchdog, the Securities and Investments Board, which is said to favour it.

Overall, pension fund custody, long a backwater of the industry, is receiving scrutiny the likes of which it has never felt before. It is inevitable that it will emerge in a different form.

John Plender looks at corporate governance after the Cadbury report

Focus on investors' behaviour

THE DEBATE on the Cadbury report on corporate governance has tended to focus primarily on the role of directors. Yet institutional investors are required by Cadbury to play a key part in ensuring companies' compliance with the Code of Practice that lies at the heart of the report. That role has been strongly supported by the Institutional Shareholders' Committee, which represents the main groups of institutional investors; and most institutions have welcomed those aspects of the report that have already led to increased disclosure and an improved framework of accountability in advance of the recommended deadline.

The principle underlying the Cadbury committee's recommendations for shareholders is that institutional investors collectively own a majority of shares in listed companies and should therefore accept the responsibilities of ownership. In practical terms, that boils down to:

- A regular dialogue with senior executives on strategy, performance, board membership and quality of management;
- Positive use of voting rights, unless there is good reason not to use them; and
- Taking a positive interest in the composition of boards, to ensure proper checks and balances, and the appointment of a core of independent non-executive directors.

Since the committee regards voting rights as an important asset, and a vital link in the chain of accountability from management to shareholders, it also recommends that institutional investors should disclose their policies on the use of voting rights.

Much of this constitutes a definition of current best practice. But the voting requirement falls into a different category. A survey by the National Association of Pension Funds showed not so long ago that four out of five pension funds did not exercise their voting rights as a matter of course. And many fund managers have complained about the administrative burden of additional paper work that the Cadbury injunction implies.

Such complaints may well be misguided. For according to pensions specialist John Quarrell at solicitors Nabarro Nathanson, pension fund trustees already have a legal obligation to exercise votes. Nor, it seems, can discretionary fund managers escape that responsibility. Customer service agreements under the Financial Services Act, says Mr Quarrell, create a relationship that is, in most cases, that of a quasi trustee or constructive professional trustee. "In my view," he says, "investment managers with discretionary management *must* exercise voting duties and interest in the way the companies they invest in are managed."

This implies that Cadbury may be asking for no more than what is already required under trust law. But because the law takes materiality into account, discretionary fund managers can find themselves under a greater legal obligation than in-house managers. This is because their fiduciary responsibilities are measured not by the percentage stake held by the individual client, but by the aggregate stake of all the clients in an individual company.

A handful of investors, including a number of local authority pension funds, regard the exercise of all votes in relation to all their shareholding as an important matter of principle. Others, including some leading City fund management groups, argue that an active approach to voting responsibilities is nonetheless compatible with a cut-off point. At Fleming Investment Management, for example, votes are exercised for companies capitalised at less than £1bn where Fleming holds 1 per cent or more of the capital; with capitalisations of more than £1bn, it votes on stakes of half a per cent or more. But an active stance is easier for those, like Fleming, that have a sizeable research department to carry out the analysis that is required for the responsible exercise of the vote.

The practicalities of exercising a vote where trustees delegate day-to-day investment decisions to an external fund manager, but retain control over voting, can be complex. If the shares are held in a pooled nominee account, instead of the fund's own name, the fund manager usually receives only one set of proxy material. Obtaining additional material can be a tortuous business, severely squeezing the timetable for the exercise of voting rights. The answer is to establish a segregated account.

One of the less publicised reasons that so many external fund managers have preferred not to exercise their votes in the past is that they fear the consequences for their business of being seen to be active in disciplining company boards.

While fund managers may formally be paid for their services by the pension fund, a majority of trustee boards are dominated by representatives of company management. It is assumed, probably rightly, that managers have little enthusiasm for tougher accountability exercised by fund managers in the City.

Over a long period, British institutional investors have played a part in securing changes in the boardroom, usually through deliberations with the non-executive directors behind closed doors. Few of them are keen on those bits of the Cadbury report which argue for a more active use of the annual general meeting, for example, to question the chairman of the remuneration committee over directors' pay.

Nor would it be easy in Britain to conduct the aggressive lobbying and proxy battles that occur in the US. The threshold for proposing resolutions at AGMs is simply too high. Pensions & Investment Research Consultants (PIRC), which runs a corporate governance and proxy voting service for UK pension funds with assets of £14bn, argued in its submission to Cadbury that the threshold for proposing a resolution at an AGM should be reduced and that timetables for meetings should be more accommodating, so that resolutions can be put and circulated. Cadbury took the point. In its final draft the committee suggested that a successor body should look into the issue.

But there are signs that a more active approach by shareholders to corporate governance issues is beginning to have an impact. Anne Simpson, joint managing director of PIRC, believes that the PIRC campaign against company articles of association that insulate executive directors from the need for regular re-election played a part in decisions by British Petroleum, TSB and Commercial Union to amend their articles. One way or another, the Cadbury report has put its mark on institutional investment behaviour.

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TAXATION: Is there a new hard line in government thinking? asks **Norma Cohen**

Budget was double blow for the industry

THE pension fund industry can be forgiven for its impression that a bout of schizophrenia has overtaken government policy makers.

For while proclaiming the government's desire to see individuals take greater responsibility for their own well-being in retirement, it has set in train tax increases which could well have the opposite effect.

In casting about for ways to finance its burgeoning budget deficit, it is not surprising that the Treasury should have focused on the tax breaks for the pensions industry – a sum equal to £8bn a year by its own account.

However, the Institute of Fiscal Studies, in a report financed by the National Association of Pension Funds, concluded that the tax breaks were worth a far more modest £1bn per year and these are relatively modest when compared against tax breaks offered in other countries.

Whatever view the industry takes of its own tax advantages, Chancellor Norman Lamont's programme, outlined in his budget address in March, have far-reaching implications for pension fund finance.

More worrying, perhaps, is whether they signal a new hard line in government thinking on tax advantages for the pensions industry.

The budget contained two pieces of bad news for the pensions industry. First, the pensions "cap" – the level of gross salary upon which final salary pension payments can be based and still attract tax relief – was frozen at £75,000 for the 1993-94 fiscal year.

Second, and more important, the Chancellor reduced to 20 from 25 the rate of dividend tax which tax-exempt investors such as pension schemes can reclaim from the government. This move is expected to gain the government £1bn a year in tax revenues, largely at the expense of pension funds.

"I think this is quite a clever move to reduce the tax breaks on pension schemes," said Mr Trevor Crowter, partner at KPMG Actuarial Services. Mr Crowter notes that initially at least, there was barely a ripple of protest from either the pension fund industry or scheme members. The effects of the changes are too complex to be quickly understood, a fact which allowed Mr Lamont to enact tax increases without losing political ground, he said.

But the effects of the changes cannot be easily dismissed. From April 6 this year, income derived on the portion of pension portfolios invested in UK equities will be cut by 6¼ per cent.

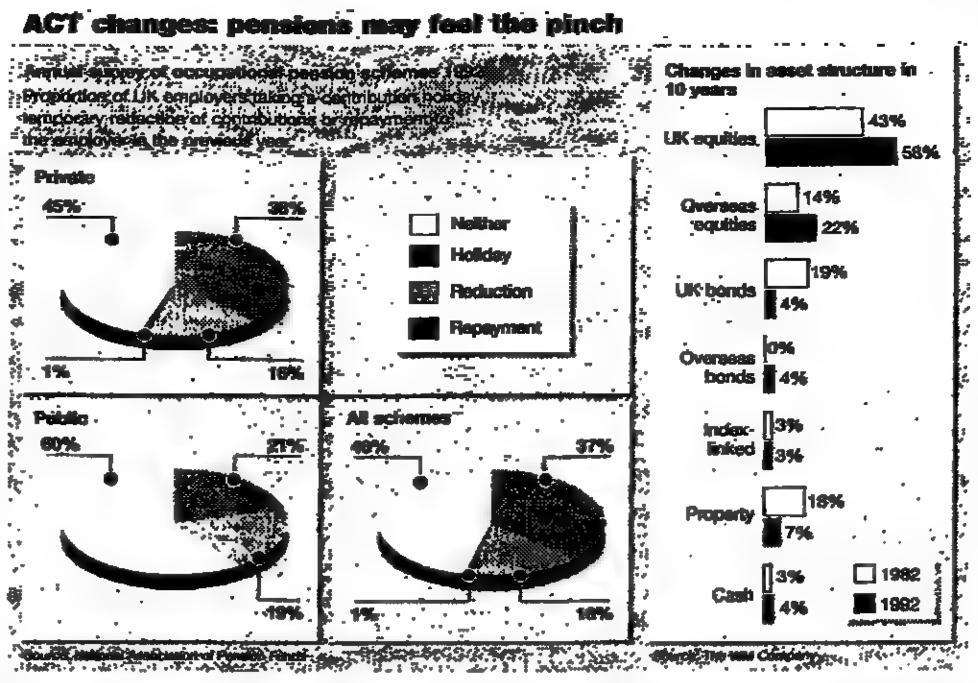
Because pension fund assets are valued not on the market price of underlying securities but on cash flow – known as the discounted cash flow method – the value of the assets pool will also have to be marked down.

"Companies will have to put in higher contributions or cut benefits," said Mr Andrew Wilson, research partner at consulting actuaries R Watson and Co.

Mr Michael Pomery, partner at consulting actuaries Bacon and Woodrow, illustrates the effect of the change by citing the case of a client with a surplus 4 per cent above liabilities.

The client, he said, has been preparing to distribute that as a benefit enhancement to members. But the tax changes mean that to do so will leave the scheme slightly underfunded, a consideration which has forced the client to shelve plans for additional benefits.

ACT changes: pensions may feel the pinch



Mr Duncan Roberts, pension finance manager at T & N, the engineering company, said the tax change is likely to knock £20m off the company's pension scheme surplus when the next actuarial valuation begins this month, thus hastening the day when the company's contributions holiday must expire.

R Watson's Mr Wilson notes that schemes hardest hit by the tax changes are those with large numbers of current or deferred pensioners, few contributing members, and an employer fallen on hard times who is relying on investment income to meet liabilities. In effect, the tax changes will hit hardest those schemes which can least afford to respond to them.

"The Treasury has spent nearly 10 years attempting to cancel or restrict the so-called tax reliefs on pension schemes," said Mr Robin Ellison, partner at solicitors Ellison Westhorp and a specialist in pensions law. Mr Ellison points out that the perceived tax breaks – most notably tax-free contributions and tax-free roll-up of capital gains and income – is actually a cash flow benefit. Eventually, members pay tax on both when they receive their benefits, albeit possibly at a lower marginal rate than they would have paid if tax had been assessed while they were employed.

Pensions experts say it is highly unlikely that the government will release an onslaught of new taxes for schemes.

The department of social security, studying how best to restructure the state's own basic pension, can ill afford to undermine occupational schemes which have largely been responsible for improving living standards for Britain's elderly over the past 15 years.

However, the treasury is said to be eyeing several changes, including the abolition of the tax-free lump sum available to scheme members upon retirement. The Institute for Fiscal Studies has estimated this could save treasury £3bn per year.

Meanwhile, the pensions industry is hoping for tax "simplification" from the Goode Committee, the government's own advisory panel on occupational pension reform. Mr Kevin Spring, partner at consulting actuaries Wyatt Company, cites the anomaly of the simultaneous limit on the percentage of gross salary which employees can put into a pension scheme tax-free and the percentage of final salary which can be represented by pension payments.

"Either you tax it when it goes in or you tax it when it goes out. That should be the principle," he said.

Barry Riley discusses investment strategy in the past seven months since Black Wednesday

ERM gamble pays dividends for funds

A YEAR ago it seemed that the consensus among British pension fund managers in respect of their investment strategy was threatened by the UK's membership of the European exchange rate mechanism.

Typical exposure to equities had topped 80 per cent of portfolios, with nearly 60 points of that in the UK stock market. It was a strategy well justified by investment experiences in the 1980s but pension funds appeared badly positioned for the 1990s if that meant an ERM-type environment of high exchange rates and low inflation. In those conditions fixed interest securities might do just as well as equities, and be less risky.

In the event the UK was forced out of the ERM and the pension funds' gamble paid off. The UK is back in an environment of a fluctuating (and generally declining) currency and inflation which appears to be stuck for the time being at 3½ to 4 per cent on an underlying basis and may, quite a few economists believe, drift up to 5 per cent or more in the medium term if the economic recovery is at all vigorous. Pension fund strategy has not changed at all.

Certainly, pension fund portfolio managers do not appear to be taking at all seriously the pledge of the chancellor, Mr Norman Lamont, to bring underlying inflation down within a range of 1 to 2½ per cent by the end of the present parliament – say, by late 1996.

Yet pension funds that shifted their investment strategies in favour of bonds a year ago would not have done at all badly. In the year to the end of April the total return on the FT-Actuaries All-Share Index was about 12 per cent, while the corresponding return on long-dated UK government securities was more like 15 per cent. The returns on Japanese, US, German or French government bonds were much higher, expressed in terms of sterling.

Conventional wisdom at present is that only equities offer an appropriate match for the liabilities of pension schemes with benefits linked to final salaries, and with at least a degree of inflation-proofing (through limited price indexation of up to 5 per cent, soon to be compulsorily applied to pensions in payment as well as to deferred pensions). The underlying assumption here is that in the long run dividends will grow in line with nominal national income.

Until the 1950s, however, the view was quite different. Bonds were safe, and equities were unacceptably risky. This conventional wisdom was overturned because inflation became a persistent problem and once pensions became linked to final salaries the mismatch was apparent.

It is important to realise, however, that the change in attitudes in the 1960s was related to a particular problem of negative real interest rates that reached its most acute phase in the 1970s. During that decade the average annual rate of return on gilt-edged was 8.1 per cent while inflation averaged 13 per cent.

The UK is back in an environment of a fluctuating (and generally declining) currency

Once exchange controls on portfolio investment were removed late in 1979, however, the real returns on sterling bonds had to rise to somewhere in line with the positive levels offered by other leading countries. Indeed, in the 1980s the annual return on gilts was 14.7 per cent compared with inflation of just 6.9 per cent. Admittedly equities performed better still during this period.

If pension fund trustees can rely on consistently positive real returns on bonds then their strategic dependence on equities can be reduced. After all, there are also risks in equities – for instance, that dividend growth may be very low over the next few years, because payouts have grown too large, and also that tax policies may be further tightened so as to discriminate against dividends, as has already happened in the latest Budget.

However, pension scheme trustees and their fund managersoften perceive risk in different terms to the risks of particular investments. They are aware of their own personal and business risks. The low risk position is to do what other similar funds are doing, and if this turns out to be wrong it will be a mistake emulated by many others. In these terms, a risk shared is a risk largely evaded. But for the sponsoring company and the beneficiaries, of course, the risk is not reduced at all.

The question therefore is how shifts in strategy can be achieved in a smooth and orderly way, rather than in response to some investment disaster which would make change an imperative.

The best solution is probably presented by the growing maturity of many pension schemes – that is, they have fewer young contributing members and more and more older and retired members. This opens the possibility of a natural shift to a less risky and shorter-term investment strategy, matching the change in the liability profile.

However, the actuarial science of asset-liability modelling is still flawed, and views on the appropriateness of matching investments is subject to fashions and distortions.

For trustees it is a challenging time. They are justifiably more comfortable with the league table approach to performance measurement, in which the comparison is with comparable peer funds, than with individual benchmarks which may seem of limited relevance, and may make comparisons difficult.

The underlying fear is that the actuaries and fund managers will hide their poor performance behind a smokescreen of mumbo jumbo which amateur trustees cannot penetrate.

The story is told of the trustees who were discussing with their fund manager a change to an index-related benchmark rather than a median fund-related target. The investment manager wished to make his position quite clear. "We are quite happy to accept the change, but it will, of course, mean that you will no longer be able to compare us with the median fund," he declared.

From somewhere at the far end of the room the low voice of one of the trustees could clearly be heard. "You see," he muttered to his neighbour, "t'buggers are making excuses already."

FINANCIAL TIMES SURVEY

President sets out his goals: interview on page three

SWITZERLAND

Role recovered as a financial safe haven: see page three

SECTION IV

Thursday May 6 1993

Rejection of European Economic Area membership has provided the government with an opportunity to shake the Swiss out of their complacency. A range of liberalisation measures is now being introduced, reports **Ian Rodger**

On the move once more

There is growing optimism in Zürich, above, the commercial and banking capital of Switzerland – see also page 3: Difficult problems are being resolved

A YEAR ago, the European Community was forging ahead confidently to a united future, while the doggedly neutral Swiss were agonising over whether or not to participate in the process of European integration.

Today, it is the EC that is in a dither over its future, while Switzerland, having made its fateful decision not to board the Eurotrain, at least for the time being, is moving ahead purposefully to create a more liberal, competitive society on its own.

"We have to be economically at least as liberal as the EC," says Mr Adolf Ogi, transport minister and this year's president of the confederation. *(see page three of this survey: interview with Mr Ogi).*

The president and the government as a whole regret that a majority of the Swiss people voted in an historic referendum last December against joining the European Economic Area (EEA), the enlarged free trade area being created between the EC and the member-countries of the European Free Trade Association (EFTA).

And they are at pains to point out that Switzerland does not seek to isolate itself from Europe or the world. After all, the Swiss voted last year at long last in favour of joining the International Monetary Fund and the World Bank. They also endorsed a treaty with the EC that commits Switzerland to drilling two new rail tunnels through the Alps at a prodigious cost of more than SFr30bn.

Moreover, as the recent row over exports of Pilatus trainer aircraft to South Africa showed, there is a new sensitivity to international opinion in this formerly aloof country. The government is even reviewing its long cherished neutrality policy, conscious that it must do its share in multilateral efforts to build and protect the post cold war order.

The government is now trying to turn the EEA rejection into an opportunity. Mr Ogi hopes the vote was the shock that was needed to shake the Swiss out of their arrogance and complacency – "we were a bit spoiled," he says.

Bern is pressing ahead with economic liberalisation measures that would have been impossible to implement even a year ago.

From last week, for example, the immigration door, hitherto nearly closed, is wide open to highly qualified citizens of other European countries, the idea being to help Swiss-based companies compete everywhere for the best talent.

Further measures to bust the country's notorious cartels, open public procurement and remove a number of sly non-tariff barriers are due to be implemented later this year. And another attempt will be made to introduce a value added tax.

Regeneration and liberalisation are also the themes of the day in Swiss industry, which has had its own struggles with complacency in recent years.

The important watch industry is the most famous case, fully recovered from the competitive challenge from Japan in the late 1970s and once again leading its field with innovative products and processes.

In the heavy engineering sector, several venerable and world famous companies, such as Brown Boveri, Sulzer Brothers, Oerlikon-Bührle and Alusuisse, have shaken off rigid old habits and become vigorous again.

The country's financial sector, which grew so fat and rich during the international financial turmoil of the late 1960s and 1970s that it largely missed the competitive challenges of the 1980s, is undergoing a long overdue shake-up.

In the past two years, some 50 banks have been taken over or closed, including two of the largest, Bank Leu and Swiss Volksbank. Outmoded laws and regulations are being revised to make Swiss financial markets competitive with those elsewhere.

All this does not mean that Switzerland is about to experience a great economic boom. In or outside the EEA, its economy is still heavily dependent on trade with neighbouring European countries, especially lacklustre Germany.

THE latest forecasts indicate that the economy will suffer a third year of modest decline in GDP this year with only very gradual recovery in 1994.

Unemployment, hitherto unknown to the Swiss, has become a serious problem as companies have shed their inhibitions about redundancies and immigrant workers no longer return to their countries when they lose their jobs.

Government deficits, bloated by the recession-driven rise in welfare payments, are expected to reach a combined SFr10bn or about 3 per cent of GDP this year, still modest by international standards, but shocking to the thrifty Swiss.

It is still too early to tell what will be the economic impact of the country's decision not to join the EEA. For one thing, the EEA treaty has not yet come into effect, and probably will not do so until next year because of wrangles over writing Switzerland out of it.

There have been sporadic reports of Swiss exporters facing increased red tape at EC borders and of local companies shifting new investments outside Switzerland. But in the current slump, no one expected investment to be buoyant.

In the immediate aftermath of the vote, Swiss researchers were struck-off EC project committees, but the government is confident that these decisions will gradually be rolled back as the committees contemplate the size of Swiss financial contributions to their budgets.

The government's biggest anxiety is over civil aviation and, in particular, access for Swissair to the about to be opened EC skies. This, of course, is as much a political as an economic issue.

Swiss negotiators were careful to include aviation in the treaty agreed last year with the EC settling the painful problem of lorry transit through the Alps.

The idea was that Switzerland would finance and build two new high speed rail tunnels through the Alps and the EC, in return, would agree to negotiate a bilateral air traffic agreement with Switzerland in the event that the country did not join the EEA.

Bern has lost no time in calling on the EC to honour its commitment, but the EC seems in no hurry. There have been suggestions that the negotiation could proceed more quickly if the Swiss were to give ground on other matters.

Spain, for example, is unhappy about Swiss restrictions on imports of garden vegetables, especially tomatoes. It is also angry that the financial aid coming from the EFTA countries as their EEA joining fee will now be significantly smaller because Switzerland is not among them. It probably matters that the EC commissioner for transport is Mr Abel Matutes, a Spaniard.

The Swiss fear that other EC countries will notice that this is perhaps an opportune time to raise any old scores they have to settle with the country. The EEA vote has had a psychological impact on the Swiss.

Continued on next page

■ POLITICAL SCENE

Signs of strain more evident

POLITICAL life in Switzerland is normally active, but tranquil.

With their cherished system of direct democracy, the Swiss are almost always about to vote on something at either local, cantonal or national level. But the issues involved are usually quite homely – on zoning bylaws or the need for a new school.

Meanwhile, debates on issues of national importance tend to be muted by the existence of a broad and loose coalition government composed of all four main political parties. The role of the opposition is left largely to the people themselves in the plebiscites. The Swiss believe that this system ensures that the country's minorities, both linguistic and religious, are all included in the process and therefore do not become alienated.

And, as many Swiss will tell you, everyone in the country belongs to a minority. Even the massive majority of German Swiss think of themselves as a minority within the German culture. Indeed, their fears of being swamped by other Germans was probably the main reason a majority of them voted last December against joining the European Economic Area (EEA).

However, in the past few years, this subtle political system has come under increasing stress. The country has come up against issues, such as the environment and the need for an army, that have divided political parties and groups of citizens in unexpected ways, leaving the government uncertain about how to act.

In the past few months, these strains have become more pronounced. The results of the EEA referendum showed splits not only between French and German speaking Swiss, as was expected, but also between the young and the old and between town and country. Moreover, the Italian Swiss, who side with the Romands on most issues, went with the Germans on this one, apparently reflecting their nervousness about getting too close to Italy.

The government remains committed to European integration but cannot push too hard for fear of aggravating these divisions. Then in January when Mr René Felber, the social democratic foreign minister, decided to resign for health reasons, the system was suddenly rocked by a surge of feminist power.

The Social Democratic Party, which had the right to name a replacement for Mr Felber in the seven-seat cabinet, sensed the mood and selected a woman, Ms Christiane Brunner, from among their ranks.

The stolid men of the centre and right wing parties did not, however, appreciate the idea of having a woman in the cabinet, and they attempted rather crudely to discredit her, partly because of her unorthodox dress and life-style, but mainly because she was on record as supporting the idea of abolishing the Swiss army. Their tactics provoked thousands of women of all political stripes and linguistic backgrounds to take to the streets, and eventually they agreed to the election of another woman, Ms Ruth Dreifuss, to the cabinet.

The strength of the woman-power phenomenon has been shown in recent cantonal elections, too. In Neuchâtel a few weeks ago, the number of women holding seats in the 115 seat assembly doubled from 15 to 31. Similar increases were seen in elections in Aargau and Solothurn.

No one expects the feminist power phenomenon to go away, but it remains to be seen what, if any, impact it and other new issues will have on the political structure. One thing though is clear. Nothing will happen impulsively – "I think we're clever enough not to change our system unless we can find a better way," says Mr Adolf Ogi, the transport minister and this year's president.

Ian Rodger

Recovery expected by end of the year, says **John McKay**

Recession proves hard to shake off

THE unexpectedly persistent recession that has gripped Switzerland since mid-1991 is proving difficult to escape from as businesses come to terms with a future outside the European Economic Area, and consumers adapt to two more years of decline in real disposable income – under the shadow of the country's highest unemployment in 50 years.

If unemployment figures were a barometer of real economic performance, then the present jobless rate of 4.9 per cent and rising would indicate the most serious economic conditions since the 1930s. However, while even official sources no longer rule out the possibility of the number of unemployed increasing from the present 150,000 to 200,000 within the next year, the turning point in the economic cycle is no longer far away.

In the two previous recessions, in 1974 and 1982, the Swiss government was able to "export" its unemployment problem, but improved residence rights for foreign workers preclude this course of action. The job market has also contracted because of structural re-adjustments in the domestic economy and the hangover effects of four years of strict monetary policy.

The Swiss National Bank's strong medicine has worked, but at some cost. Inflation, which reached a high of 6.6 per cent in the summer of 1991, is hovering at just over 3 per cent, although the reserve bank's year-end target of 2.5 per cent is unlikely to be met.

ONE of the most serious concerns on the domestic front is the construction industry. Some estimates suggest that in order to use the over-capacity in commercial and industrial property, another 70,000-90,000 jobs would have to be created between now and the end of the decade. Office rents in the commercial capital, Zürich, are now less than half those of the mid-1980s for new tenants.

According to Mr Hans Kaufmann, chief economist of Bank Julius Baer, in Zürich, orders in the construction industry are down 26 per cent in nominal terms. The situation has reached the critical point where capacity might have to be sharply reduced – "if orders do not pick up this year, the construction sector will have to shed another 15,000-20,000 jobs," he says.

A government attempt to stimulate construction by offering 15 per cent subsidies for public works projects in the 23 cantons, or mini-states – similar to a programme which largely succeeded in the 1980s – is expected to have negligible effect this time. In theory, it could have led to additional spending of SFr1.6bn ($710m), or 3 per cent of the total outlays in a sector which accounts for 17 per cent of GDP.

However, the cantons and municipalities have been slow to make use of this money, the main reason being the soaring overall public deficit of between SFr10bn-SFr11bn. Some SFr3bn is being carried by the federal government and the further SFr7bn-SFr8bn by the cantons and local councils combined. In the early 1980s they were in surplus.

The construction sector is one of the worst examples of Switzerland's cartel-riven and unbalanced internal market. A recent study estimates that the public sector pays SFr7bn-SFr8bn a year more for construction projects than if a free market were in operation. If the federal government or the cantonal authorities wanted to construct a building in Zürich, only Zürich-based companies could legally submit tenders.

Analysts at the country's leading banks forecast a further decline in GDP in 1993 of between 0.3 per cent and 0.7 per cent, after a fall of 0.6 per cent last year. But they are unanimous that recovery will be well under way by the turn of the year. Growth forecasts for 1994 are between 1-1.5 per cent.

Meanwhile, 1995 is seen as the year of the return of Switzerland's traditional annual growth levels of 2 per cent or more. Optimism is geared to the go-ahead than of large public works; a SFr30bn-SFr40bn alpine tunnels project is to be completed over 10 years, four gaps in the motorway network are to be filled, and work will restart on the SFr8bn Railway 2000 project, only 10 per cent of which has been completed.

In the short-term, weak consumer spending will continue to be a drag on the recovery. Private consumption is expected to decline by 0.5 per cent after last year's fall of 0.3 per cent, in the face of job uncertainty, another fall in real wages, and increases in petrol tax and unemployment insurance contributions.

Mr Manfred Gutmann, chief economist of the Union Bank of Switzerland, said the banking and insurance sectors would expect to shed more jobs this year. Some analysts expect the job-cuts to be as high as 2,500 to 3,000 – "banks and insurance companies are no longer able to absorb as before people laid off from the industrial sector as job creation in services has peaked."

He expects unemployment to average about 4 per cent for the next three or four years – a new situation for a country accustomed for decades to near full employment.

There appears still to be scope for a further loosening of monetary policy. Mr Georg Rich, the reserve bank's chief economist said he could see interest rates declining further this year, but was cautious on the recovery – "I think things will improve in the second half, but any improvement will be modest. In my view it has to come from the domestic side because I think the external side still looks relatively grim."

While Swiss exports were the main support of the economy in 1992, growing 5.5 per cent in real terms, they are expected to be flat this year. Exporters are suffering from the slowdown in the EC, particularly in Germany. Given weaker EC investment demand, a fall-off in exports will be felt most in the industrial machinery sector.

The negative effects of Switzerland's no-vote in the EEA referendum will take some time to gauge. However, there is a feeling in Bern that the government's traditional perception of itself as a *Sonderfall* (special case) in the international arena will guide it through any difficulties with the Brussels hierarchy, to whom it has always had privileged access.

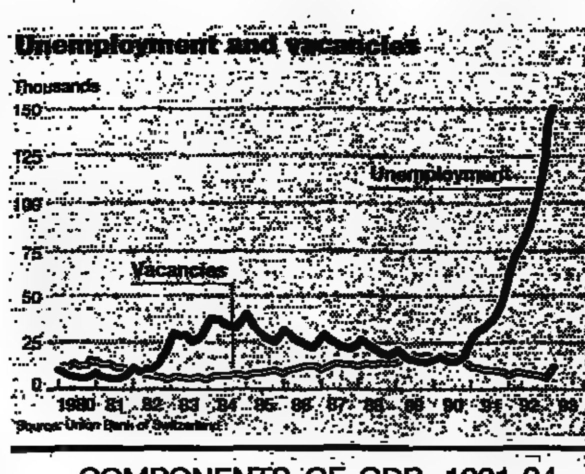
Mr Pierre-Louis Girard, the country's senior negotiator in the Uruguay Round of the Gatt world trade talks, said both the EC and Switzerland could recoup what they aimed to do in the EEA – "a successful Uruguay Round would in fact solve the problems we would be faced with in the absence of a bilateral agreement in the sense of the EEA, or in the field of public procurement."

Mr Girard said non-membership of the EEA was as likely to cost Switzerland in growth terms no more than would an appreciation of the Swiss franc at any given time.

Throughout the EC big Swiss companies are in entrenched positions which may not be easily dismantled.

"We have 8 per cent of our overall trade with Baden-Württemberg, one German state. There is cross-border co-operation, the same mentality, the same structures, the same economic conditions," says Mr Girard.

In the meantime, Swiss corporate earnings growth is expected to pursue its upward trend. Falling interest rates are also likely to stimulate the Swiss stock market, as more attractive instruments are sought in which to reinvest some of the estimated SFr700bn in short-term investments. The Swiss franc, which weakened in the first quarter, is expected to strengthen later in the year.



COMPONENTS OF GDP, 1991-94
Year-on-year growth (in percentage)

	1981-90	1991	1992	1993*	1994*
Private consumption	1.8	1.5	-0.3	-0.5	0.0
Investment	4.4	-2.8	-6.7	-2.8	0.9
– Construction	3.7	-3.2	-5.7	-2.0	1.5
– Equipment	5.6	-1.2	-8.3	-4.0	0.0
Total exports	3.3	-0.7	3.4	0.1	1.2
Total imports	3.8	-1.7	-3.8	-1.5	0.0
GDP	2.1	-0.1	-0.6	-0.3	1.0

*Indicates estimates; source: Union Bank of Switzerland

KEY FACTS

Area	41,293 sq km
Population	6.79 million
Head of state	Adolf Ogi
Currency	Swiss Franc
Average exchange rate	1991 $1=1.4340; 1992 $1=1.4062

ECONOMIC INDICATORS

	1991	1992
Total GDP ($bn)	232.0	244.5
Real GDP growth (%)[1]	-0.1	-0.6
Components of GDP (%)[2]		
Private consumption	35.1	36.2
Total investment	14.2	15.1
Government consumption	27.2	22.2
Exports	57.2	58.4
Imports	-33.7	-32.1
Inflation rate (%)[3]	5.8	4.0
Unemployment rate (%)[4]	1.3	3.0
Year on year growth in:		
Employment (%)	-0.3	-2.6
Maufacturing production (%)	0.5	-0.7
Retail sales volume (%)	-0.8	-3.4
Narrow money (M1) (%)	1.2	0.3
Broad money (M3) (%)	3.2	3.1
FT-A share price index (%)[5]	19.9	21.8
At year end:		
Reserves minus gold ($bn)	29.0	33.2
Discount rate (%)	7.00	6.00
Govt bond yield (%)	6.35	5.48
Current account balance ($bn)	8.9	n.a.
Exports ($bn)	61.7	65.5
Imports ($bn)	66.8	65.6
Trade balance ($bn)	-5.1	-0.1
Trading partners (%)[6]	Exports	Imports
US	8.3	7.3
Japan	4.3	4.4
Germany	23.7	32.6
France	9.6	10.8
Italy	8.6	10.0
UK	6.6	5.5
EC	69.6	70.0

Notes: (1) Year on year percentage change.
(2) GDP components for 1991 and Q3 1992.
(3) Year on year change in consumer price index.
(4) Unemployed as percentage of labour force.
(5) Growth in FT-A share price index at year end.
(6) Percentage share of trade in 1991.
Sources: IMF, World Bank, OECD, Datastream.

■ COMPETITION POLICY

Cartels under attack

THE DENUNCIATION of Switzerland last autumn by the Organisation for Economic Co-operation and Development (OECD) for condoning cartels came as little surprise to those familiar with the country.

Prices for many goods and services are outrageously high compared with those in neighbouring countries, and for no apparent reason.

According to the OECD's study, the average prices of goods and services for private consumption in Switzerland are 40 per cent higher than in the average in the 24 OECD countries on a purchasing power parity basis. Prices of goods and services for capital investment are 30 per cent higher.

The main reason for these disparities is that Swiss markets are riddled with anti-competitive practices. The OECD found that price fixing or market sharing agreements existed in no less than 90 per cent of 72 industrial activities in the country.

If this state of affairs seems difficult to square with the fact that Switzerland is a very open trading nation (except in agriculture), the answer seems to be that many importers are only too happy to join Swiss cartels, either directly or through their local distributors.

Swiss leaders have long recognised that their tolerance of cartels will have to come to an end. The problem is mobilising political support to revise laws and regulations affecting competition.

Swiss law does not expressly prohibit cartels. Rather, a plaintiff must prove that the effects of a cartel are, on balance, economically harmful, in order to win a legal case. In most cases, especially in prosperous Switzerland, that is difficult to do.

There have been several cases in recent years – notably in the banking, insurance and cement sectors – where long and costly investigations have led to indecisive results.

The latest drive for reform began in 1991 when the federal cabinet, in anticipation of the country moving towards integration with the European Community, adopted a new competition policy. Its thrust was that Switzerland could not continue to compete in world markets in the future without having competitive markets at home.

The government's hope then was that the country would join the European Economic Area (EEA), the expanded free trade area linking the seven countries of the European Free Trade Association (EFTA) with the EC. Then it would have to take on EC competition law, and the problem would solve itself.

In the event, a majority of Swiss voted against joining the EEA last December 6, and so the government had to take matters into its own hands.

A commission of experts was set up in December, and it has already submitted a draft reform for comments from various interested parties. A final draft is expected by the end of June and then it will enter the complex Swiss legislative process.

The OECD called for a fundamentally revised competition law in which "the protection of the competition process *per se* should be established as as an overriding objective."

But that is not going to happen. According to officials in Bern, the thrust of the reform will be to outlaw specific anti-competitive practices, such as output quotas, territorial divisions, boycotts, price maintenance schemes and price fixing.

A further amendment would subject all competition cases to administrative law. At the moment, some are handled under civil law, which results in long drawn-out cases.

The reason for taking this route is that a change of general principle would involve a change in the Swiss constitution, and thus requires a referendum. This would take a long time and might end up being vetoed by voters.

In any event, the result of the planned reform will be largely the same. One of its main positive effects, according to Mr Andreas Limburg, who has just completed his doctorate on the subject, would be to simplify the investigation and enforcement processes.

Thus, it would answer another OECD criticism that the Cartel Commission does not have adequate resources to do its job. In the future, the commission will not have to determine whether or not a particular practice is socially harmful. If there is proof of price fixing, for example, that will be sufficient for it to take action.

The official objective is to pass legislation by year-end, but that looks ambitious. Opposition, which was muted during the run-up to the EEA vote, has now surfaced within the business establishment, and officials recall that the last attempt to reform cartel law began in the early 1970s and finally resulted in a new law only in 1985.

The most controversial area is probably merger control. At the moment, companies are not obliged to notify anyone of their intention to merge. The Cartel Commission has the right to investigate mergers and can make recommendations on the merged company's future behaviour but cannot recommend or order divestiture.

The argument against establishing a domestic merger control system is that the country's market is too small to be significant. Also, in the cases of very large company mergers, the companies involved will almost certainly have a sufficiently large presence in the EC that they will have to go through EC clearance procedures.

This was the case, for example, for Credit Suisse's recent SFr1.6bn takeover of Swiss Volksbank and last year's takeover by Swiss Reinsurance of Elvia.

Apart from revisions to the cartel law, several other actions to promote freer competition are in the works, such as liberalising the labour market, providing for mutual recognition of qualifications and eliminating various non-tariff barriers.

Switzerland has an extraordinary array of NTBs, from special dimensions for refrigerators to unique anti-pollution specifications for cars. Yoghurt cannot be called yoghurt unless it is packaged in 180 gram, 250 gram, 500 gram or one kilogram containers.

"Any single item is not that important, but if we change a lot of things with a view to facilitating market access, we can have an effect," says Mr Peter Saurer, head of the government's general economic policy office.

Recently, the association of cantonal governments agreed in principle to opening up their SFr30bn annual public procurement market. Most cantons now have regulations stipulating that only local companies need tender, but they now realise they could save a lot of money by opening up to bidders from other cantons and even from abroad.

Ian Rodger

□ Continued from page one:

New social pressures

Hitherto aloof and confident, they are showing signs of isolation.

In the past, the many Europeans who married with Swiss were always eager to get a Swiss passport. Now the reverse is happening. One hears several reports of the Swiss in these partnerships hastily filing for EC passports.

Switzerland's multicultural society continues to show other strains.

The recent angry demonstrations by women all over the country at the mistreatment of a woman candidate for a vacant Cabinet position incidates a new impatience with male domination in their society.

Next month's plebiscites on the future of the army could also unveil deep divisions over an institution that has been one of the few unifying forces in this diverse country. And the country's leaders remain unable to resolve their outsize drug problem.

People were horrified to learn the other day of a 12-year-old girl in Zurich who had turned to prostitution to pay for her heroin addiction.

But even this harrowing problem should be kept in context. Switzerland remains surprisingly civilised, as I discovered anew one afternoon a few weeks ago when my bicycle was stolen from a downtown Zurich pavement.

A few minutes after discovering the theft, I spotted a scruffy young man walking the bicycle along the street and confronted him. He was immediately defensive and claimed to have just bought it in "Heroin-gasse," the drug addicts' black market, for SFr40.

He asked me to reimburse him, but when I threatened to call for police help, he immediately returned it and walked quickly away. If this had happened in New York or London, I would have been lucky to have escaped uninjured – let alone with my bicycle.

■ INTERVIEW WITH THE PRESIDENT

'We can give an example to Europe'

IAN RODGER talks to Adolf Ogi, transport minister and this year's president of the Swiss Confederation.

□□□

■ **QUESTION:** *In spite of* the rejection by the Swiss people in a referendum last December 6 of the government's proposal to join the European Economic Area, you are maintaining your policy of seeking closer links with the European Community.

What paths can you follow and what problems will you face?

ANSWER: Our main goals now are to avoid isolation and possible discrimination *arising* from our non-participation in the EEA. That means we must pursue bilateral relations with the EC with a view to concluding certain agreements.

We are fully aware that we cannot get bilaterally what we have *rejected multilaterally*. Nonetheless, we are not going on our knees. We have a range of assets which are of interest to the EC. For example, they need fast 'just in time' transportation systems through the Swiss Alps.

I also think we can give an example to the new Europe of how to function if you accept certain rules. We are a country with four languages, four cultures and 26 cantons. We know that it is not normal that a country like ours can live in peace and freedom.

We know that we have to work every day so that this construction, Confoederatio Helvetica, can go on and become stronger. So we think we have something to offer to Europe, and that Europe has absolutely no interest in putting us in a corner.

■ **So far, the EC appears to be proving reluctant to negotiate a bilateral air agreement. Is there anything Switzerland can do to accelerate the process?**

We have a new transit agreement with the EC. Under it, we are going to build two new tunnels through the Alps which will be beneficial mainly to our EC neighbours, but we did not ask them for money. (In return, the EC agreed to negotiate a bilateral air agreement with Switzerland.) We have no doubt that the EC will honour its commitments.

■ **How soon and under what conditions do you think it would be sensible to seek the approval of the Swiss people for a renewed approach to joining the EEA or the EC itself?**

We have to be very careful. We do not want to produce another "No" before Austria, Sweden and Finland have their referendums on joining the EC. Referendums have become important signals in Europe. The one in Liechtenstein – which had a positive result – made the front pages of newspapers.

So if there is a second try, we must be sure we can get it through. It is not possible at this time to give a schedule. Things in Europe *change so quickly these days.*

The economy could have an influence, what Denmark and Britain do – everything is interrelated. There is an initiative (petition campaign for a referendum) under way. If it gets a lot of signatures, that could change the situation. But it will definitely not be this year.

■ **Has Switzerland's refusal to join the EEA had any concrete impact on the economy?**

We have both positive and negative signs, but it isn't yet possible to analyse it. And, after all, the EEA isn't yet in force.

Animated conversation: Adolf Ogi, right, the Swiss Confederation president, makes a point with Klaus Schwab, president of the World Economic Forum, earlier this year

■ **Since the EEA rejection, the government has launched initiatives to liberalise the Swiss economy unilaterally, in particular a so called Swisslex package of 27 laws. Will these get bogged down or watered down because of pressures from vested interests?**

Our view is that we have to be economically at least as liberalised as the EC. We had everything going for us for such a long time. Nearly everybody was rich. When you are rich, you do not work as hard as you should. We needed a sort of big bang. We did not need a "No" to the EEA, but it will wake us up. The government is convinced that if we want to realise the necessary changes, the package aspect is essential. So far, the various parliamentary committees have agreed with us.

■ **In a month's time, there will be one referendum on the purchase of new fighter aircraft for the Swiss airforce and another on how much land should be made available to the army for training. Do Switzerland's neighbours need to worry about the country retaining its ability and will to maintain security at *this crossroads of the continent?***

We are the only country where the people can vote on such matters. We had a referendum four years ago on abolishing the army and the great majority voted in favour of keeping it. Tell me another country that would have had such a vote and where the people would have voted yes. I am persuaded that we can win these referendums.

We have a well trained and well equipped army. *Under our new policy* – Army 95 – we are going to make it smaller, but it will be better. We have responsible and well brought up young people. Only a very few do not want to enter the armed services. Do not worry. You will be able to count on Switzerland in the future to look after security at this crossroads of Europe.

■ **The EEA vote and the tensions in January and February over the election of a new member to the Cabinet revealed some strong divisions in internal Swiss politics. Do you think that the governing coalition will continue to withstand these strains?**

The European issue did not lead to extraordinary strains inside the government coalition, but the tensions it produced are much deeper than those during the Cabinet election.

We have differences between the French-speaking part and the German-speaking part, between old and young, between those who live in towns and those in the countryside. As president, I have to help get our peoples together again.

Differing opinions among the four coalition partners are frequent. We have a very free coalition – there is no written agreement among them – and so we have no precise government programme. Also, we always have changing alliances within the governing coalition. Sometimes, where *you come from is more important than* your party.

■ **The battle over the Cabinet post arose largely because a woman was proposed for the vacancy. Are Swiss women going to remain militant?**

Yes. We need more women in politics, but I am against quotas. I think it has to develop normally. You have seen this in cantonal elections in recent weeks. In Neuchâtel, twice as many women candidates *were elected.*

■ **The Swiss government has been running large deficits in recent years. Are the Swiss becoming like citizens in other countries, wanting more government services but not wanting to pay the taxes to finance them?**

In my view, the deficit is one of our most important problems, but compared with our European neighbours, we're still doing fairly well. I think we are overcoming the situation. It isn't that we are better than others, but we are still in control of the problem. The deficits are mainly due to the economic slowdown, but a mentality has developed because we were a bit spoiled. Now we are taking off our jackets, rolling up our sleeves and going back to work. But it will take some time before we have a result.

■ BANKING AND FINANCE

Difficult problems being resolved

THE strength of the Swiss stock market and the Swiss franc in the wake of the negative outcome last December 6 of a referendum on joining the European Economic Area (EEA) has surprised many analysts.

It was widely predicted in the run-up to the vote *that unless Switzerland joined the* EEA, thereby gaining free access to European Community markets, the country's industries would be hurt badly and its economy would weaken.

That view may yet turn out to be right, but it will take several months, if not more than a year, for the potential negative impacts of the decision to become apparent.

In the meantime, however, Switzerland *has recovered a role that a year or so ago* it seemed to be irrevocably losing, that of financial safe haven.

Until last summer, the leading European currencies were calm within the exchange rate mechanism and the path to monetary union looked clear and relatively smooth.

Now not only the monetary but also the political future of the EC is looking uncertain, whereas Switzerland's course is, at least for the medium term, clear. It may *not be a brilliant one economically*, but it is safe, and it is a truism that investors prefer safety to uncertainty.

Thus, money has poured into the country in recent months, helping the banks to improve their recession-damaged profit and loss accounts, and enabling the central bank to drive down interest rates without having to worry about a serious weakening of the franc.

Another factor adding to the buoyancy of Finanzplatz Schweiz is the speed with which the financial industry has sorted out some difficult structural problems.

In particular, the takeover of the troubled Swiss Volksbank by CS Holding, the group *built around Credit Suisse*, has resolved a nagging uncertainty about the future of structure of retail banking in the country.

Long before the acquisition, it was clear that big changes were necessary in this overcrowded sector. In addition to four universal banks, Switzerland has 28 public sector cantonal banks, nearly 200 regional banks and over 1,100 outlets of the Raiffeisen network of co-operative banks all competing for the *small customer's* business.

In the boom of the late 1980s, banks of all kinds and sizes lent too much money to small businesses and property speculators. When the economy slumped they were hit hard by bad debts and higher costs of refinancing loans. In late 1991, to the shock of the Swiss themselves, one regional bank, Spar und Leihkasse Thun, went bust leaving depositors in the lurch.

Since then, safety nets have been strengthened and, to the banking community's relief, 21 regional banks and 27 Raiffeisen closed last year without any depositor losses.

But these were relatively minor events *compared with the uncertainty over what* was happening on the commanding heights of the sector. Was Credit Suisse big enough to compete in retail banking with the other two big banks, Union Bank of Switzerland and Swiss Bank Corporation? And what would become of Volksbank, its capital draining away rapidly to cover bad debts?

The takeover of Volksbank by CS solved both issues at once, putting the CS group *on a roughly equal footing* with the other big banks with a more than adequate national branch network and customer base. As Mr Silvio de Capitani, chairman of the Federal Banking Commission, said last month. "The important positions are now taken up in the retail banking sector. It is very unlikely, at least in the medium term, that any financial groups not already active in this sector or any foreign competitors will play an important role in this market."

Mr de Capitani did not mean that the sector would become soft and inefficient again. On the contrary – "we must expect a new intensification of competition *among all the banks concerned*," he predicted. "Structural change will certainly continue, and not only in the regional bank sector. There will be mergers, takeovers and co-operation agreements."

Indeed, but from here on, the pattern is clearer. The mergers and takeovers will be largely among the regional banks, as they grope for a formula that will enable them to counter the economies of scale that the big banks can offer.

The cantonal banks are trying to achieve the same end mainly through co-operation agreements. Mergers are largely excluded because each enjoys at least some measure of guarantee from its cantonal government, although a big merger of two Geneva based cantonal banks is due to take place later this year.

The cantonal banks have already pooled their efforts in a number of areas, including data processing, pension fund management and credit cards, and other plans are in the works. While *many big strategic* decisions have been made, it has to be said that the mostly painful implementation process still lies ahead. CS alone is looking to close at least 100 of its combined 400 branches and shed 2,000 jobs.

And while the industry welcomed the reduction or elimination of stamp duties and turnover taxes on some securities transactions that came into effect on April 1, leading bankers know they must continue to fight for further legislative and regulatory reform to make the financial centre fully competitive.

Stamp duties still apply on more than three quarters of securities transactions. In one category – the purchase by a foreign investor of Swiss shares on a Swiss stock exchange – the duties apply where they did not exist before.

The other area where reform is urgent is in investment trust law. Much of this business in recent years has gone to Luxembourg because of excessive restrictions and unfavourable tax treatment in Switzerland. A draft reform has been agreed by interested parties and is expected to be presented to parliament in either September or December.

The industry's other priority is rationalising its securities markets. The aim to create a single *national stock exchange* to replace the three remaining ones in Zurich, Geneva and Basle has been tied to a plan to build an infrastructure for electronic trading and settlement. An initial design for an electronic trading system was abandoned last year after much bickering by member banks about its cost. A more modest one is now being developed with a view to beginning operations in 1995.

Ian Rodger

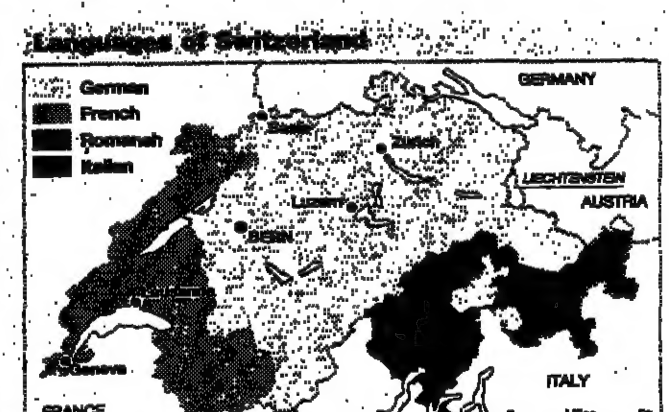
Languages form a 'Swiss Iron Curtain,' reports **John McKay**

Tensions on cultural divide

THE *city of Fribourg*, with *its Medieval cathedral* and a historic quarter of Gothic and Renaissance façades, is one of the main battlegrounds of Switzerland's Franco-German linguistic rivalry. The division was dramatically exposed when Switzerland split along language lines and rejected gradual integration with the rest of Europe *in a referendum* last December on membership of the European Economic Area.

A quaint, riverside mixture of architectural treasures and 1960s town planning, the majority French-speaking Fribourg is no Cold War Berlin. However, the city does have its own version of the Iron Curtain, knowns as the *Röstigraben* – an imaginary trench running through the Swiss psyche and along the geographical boundary between the some 70 per cent of Swiss who speak German and the 20 per cent who have French as their mother tongue; in the south-east of the country, another 9 per cent are Italian speakers and a tiny minority keeps alive the fourth national language, Romansch.

Languages of Switzerland



The *Röstigraben* takes its name from the fried potato cake of rural origin, which the Swiss French mischievously perceive as the German-speaking majority's most imaginative contribution to the country's cuisine.

There is also a natural boundary running through Fribourg, situated about 30 miles south-west of the federal capital, Bern. The River Sarine, known in German as the Sanne, forms an uneven border between German Switzerland to the east and the main francophone regions to the west. But it is the *Roštigraben* which is referred to by all Swiss when they talk of the cultural divide.

In recent years, however, the *Röstigraben* of linguistic separation has become increasingly symbolic of political divergence as well, with the largely pro-European Swiss French seeing their desire for a more open foreign policy, including membership of the United Nations, being crushed by the inherent conservatism of the Swiss Germans in the rural heartlands.

Fribourg is the capital of the canton by the same name. With the 22 *other* mini-states of the Swiss Confederation it enjoys constitutionally-guaranteed autonomy on all local matters. While Swiss Germans exercise virtual domination over their francophone co-citizens in such areas as the economy, the federal public service and the army, the cantonal system allows the seven cantons with *French*-speaking majorities, or large and vociferous minorities, jealously to guard their cultural independence.

In Fribourg, the Swiss Germans are left in no doubt that their status is one of a minority. Fribourg is two-thirds French-speaking and one-third Swiss German, almost the reverse of the position nationally. The Fribourg French are predominantly Roman Catholic and the German-speakers Protestant.

The arrival in recent years of the large Basle-based chemical companies has provided much-needed employment, but also has brought about demographic changes as many Swiss Germans have come with them to settle in the area. While many ordinary Swiss Germans are in general willing to speak French, the opposite is not the case. The sentiment prevails among French-speakers that *l'allemand n'est pas beau* ("German is not a nice language").

The francophone majority in Fribourg has been grudging in its acceptance of the influx, to such an extent that only in 1991 was German allowed to be an official language in the canton. The French-speaking majority also reacted slowly in *providing* Swiss German, non-Catholic schools, even in areas where German speakers were in the majority. Many Swiss German families have had to opt for private education.

While many of the country's multilingual business and intellectual *élite* prefer to play down suggestions that Switzerland is anything other than the spiritual home of ethnic harmony and social cohesion, the political and cultural gap between ordinary Swiss may be widening.

Professor Ulrich Klöti, a politics lecturer at the University of Zürich, said Swiss leaders are under-estimating the linguistic divide – "the man and the woman in the street feel more serious about this problem. They regard each other as foreigners if they have a language difference," he says.

He adds that attitudes of linguistic superiority were not just confined to the majority

Turn to page four

John McKay on the forthcoming 'Fortress Switzerland' referendum

Military debate intensifies

THE item of Swiss military hardware best known throughout the world is the Swiss Army knife. In Switzerland itself, the piece of hardware pre-occupying minds is the US McDonnell Douglas F/A-18 fighter aircraft.

The knife, turned into a consumer item after it became popular with Allied troops serving along the Swiss border during the Second World War, may evoke images of benign Alpine soldiers whittling wood or popping corks around camp fires, but in reality the country at the centre of western Europe is one of the most militarised in the world, in pursuit of its policy of heavily-armed neutrality.

However, this cornerstone of the Swiss confederation is now under increasing threat as the younger generations question the country's military doctrine in the post-Cold War world.

Swiss voters go to the polls next month in a referendum to challenge again the idea of "Fortress Switzerland." A combination of the end of the Soviet threat and continuing economic recession helped gather enough popular support in a nationwide petition last year for the holding of a vote on June 6 to block a SFr3.5bn (£1.6bn) government deal to buy 34 F/A-18 aircraft.

Government proposals for a restructuring of the citizens' militia in 1995 have not been enough to silence critics of high military spending at a time of greatly reduced threat.

While Switzerland's security has depended for decades on its ability to mobilise its militia army of 625,000 men, a group of Social Democrats and pacifists claimed to have mobilised more than 500,000 people – 11 per cent of the electorate – in just 34 days to sign the petition calling for a moratorium on buying the fighter aircraft. In the event, only 100,000 signatures needed to be verified for the referendum to go ahead.

Under Switzerland's system of direct democracy, any private citizen can challenge government policy by gathering the support of 100,000 voters for what is termed a "people's initiative". Next month's ballot will also decide on a side issue, with the pacifist lobby seeking a limit of 40 on the number of army bases in the country.

What has alarmed the defence ministry in Bern is not only the scale of the opposition to the purchase of the F/A-18, but the fact that the wording of the referendum – which is decided by the successful petitioners – bans all new fighter aircraft purchases, from whatever source, until the year 2000. By that time the Swiss air force would be virtually obsolete.

The country's most modern frontline fighters comprise 130 US F-5s, built in the 1970s, backed up by 45 French-built Mirage-IIIs from the 1960s. It also has 130 vintage Hawker Hunters, now 40 years old.

A large 'yes' vote, even falling short of a majority, will confirm a growing dissatisfaction among the young with the idea of military service and defence at any cost. A referendum in November 1989, calling for the armed forces to be scrapped altogether, was defeated. However, 36 per cent of the electorate voted in favour. In addition to widespread pacifist sentiments, there is also a growing perception that the military establishment wields more political clout than is healthy in a democracy such as Switzerland's.

THE defence ministry has attempted to counter the arguments against the F/A-18 by pointing to the fact that the costs have been spread over seven years and payments made and falling due have been allowed for in military spending plans up to 1994.

Defence spending for 1993 will be SFr5.8bn, or 1.5 per cent of GDP, which represents a 6 per cent reduction on last year. A defence ministry spokesman said that opponents of the F/A-18 have ignored the fact that the deal includes privileged access to the US market for Swiss goods up to a value of SFr2.5bn. A similar agreement was signed with Germany when Switzerland bought its Leopard battle tanks.

On the timing of the aircraft purchase during recession, the defence ministry pointed out that as evaluations of an aircraft take up to five years such a deal cannot be based on short-term economic considerations.

"Every country in Europe, except Austria and Switzerland, has updated its fighter force for the 21st century. It is a purchase for the long term. We would expect to have the F/A-18s in service for 30 years." The defence ministry spokesman added that the aircraft, which is armed with Sidewinder heat-seeking missiles, was the best of its generation for Switzerland's needs and was easily integrated with European forces during the Gulf war.

A cheaper alternative for air defence – ground-to-air missiles such as the US Patriot system – is not considered capable of protecting all of the country's air space, because of the limitations of radar guidance in mountainous terrain.

None of these arguments impress the sponsors of the referendum, gathered under 'The Group For Switzerland Without An Army.' Their leader is Mr Andreas Gross, a bearded 41-year-old Social Democrat MP from Zürich. His party, a member of the ruling four-party coalition, voted against the deal when it was approved by parliament a year ago.

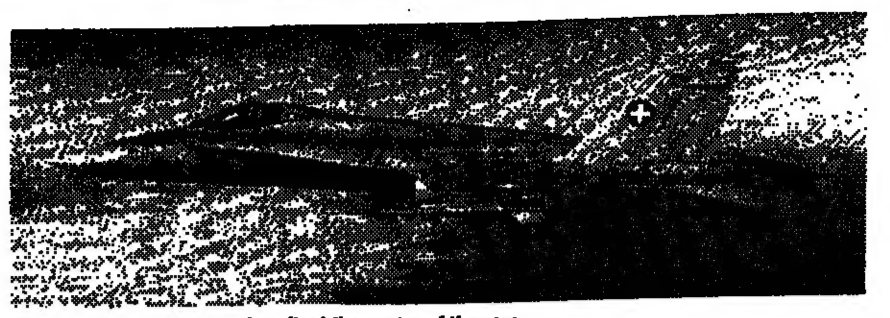
"It is a political obscenity at a time of more pressing needs and reduced world tension," said Mr Gross, who wants the funds redirected into improved social provisions, low-cost housing and increased aid for the Third World.

He believes a yes result would represent "a blow against the political hegemony of the army." It has "always received special treatment and has taken a political stand in many aspects of domestic affairs, including such issues as the length of the working week. If we receive a yes vote, the government has a moral duty to remove the funds from the military budget and spend them elsewhere," he says.

Even if Mr Gross and his supporters won a majority of the popular vote – which is increasingly unlikely – they could still lose. The country's political system is weighted in favour of the cantons. A majority of the 23 individual cantons also would have to vote in favour for a moratorium on the deal to be brought into effect. Some analysts believe the yes vote would need to be as high as 60 per cent of the popular vote to secure the majority of the cantons.

Support for the initiative may also have suffered because of the worsening of the conflict in Bosnia compared with a year ago when the petition was presented.

In the meantime, the government continues with its defence review to be implemented in 1995. The size of the citizens' militia is to be reduced from 625,000 to 400,000 by cutting the age limits under which all Swiss men are required to undergo three weeks of military training a year.



The F/A-18 Hornet fighter aircraft at the centre of the row

■ THE RED CROSS

Daunting task in the Balkans

THE International Committee of the Red Cross, founded to help the victims of war and guardian of the Geneva Conventions, is facing one of the biggest challenges of its 130-year history.

Its effectiveness as the agent of humanity in wartime is being called into question in the former Yugoslavia in the most serious flouting of the Geneva Conventions since the Second World War.

The test of the ICRC's legal and moral status on the battlefield – it is mentioned in the Geneva Conventions and is an observer at the United Nations – comes at a time when it is seeking to redefine itself as a more international body, separate from its host country, Switzerland. At a quiet ceremony on March 17, the organisation officially severed its links with the Swiss government.

The move resulted largely from Switzerland's fading neutrality after the Cold War. Bern's participation in UN sanctions against Iraq and moves towards closer ties with the European Community precipitated the separation in the interests of the ICRC's strict rules of independence.

The government will continue, however, to finance a large portion of the ICRC's running costs.

With some 30 operations in progress throughout the world, the ICRC's budget for 1993 is currently SFr754.6m (£336.8m). Of this total, SFr532m is earmarked for actions in the field such as the Balkans, Angola, Somalia and the former Soviet Union.

These funds are raised in appeals to signatories of the Geneva Conventions, national Red Cross societies, and from donations.

Another aspect of the ICRC's aim of becoming more international has been its decision to end its all-Swiss policy of delegate recruitment. Now candidates of any nationality can apply for selection as delegates.

However, the top management will remain in Swiss hands. Its main decision-making body is a 25-member assembly of "the great and the good" from the Swiss intellectual and business communities.

They are expected to be sending young aid workers off to the Balkans war zone on the Zagreb express from Lausanne for some time to come.

The poignancy of a train ride from Switzerland to a war in Europe has not been lost on the ICRC's headquarters staff.

The organisation was born as the result of an earlier bloody war in Europe. A Swiss businessman, Henri Dunant, witnessed the suffering of wounded soldiers in the Franco-Austrian battle of Solferino, in Italy in 1859.

On returning to his home city of Geneva he wrote a book, *Memories of Solferino*, in which he recounted the horrors of battle and the inhumanity of its aftermath.

He proposed the setting up of a war relief agency out of which was born the ICRC and the Red Cross movement. The Geneva organisation then built up its reputation throughout the twentieth century and two world wars.

Part of the the ICRC's task has been to help develop international humanitarian law from which it gets its mandate.

Recent efforts by the ICRC to strengthen its reputation as an impartial intermediary in wartime has so far failed to add to its influence over Bosnia's political and military factions, which, with varying degrees of brutality, have broken formal agreements with the ICRC on the humane treatment of military and civilian victims.

Repeated appeals for mercy to be shown to defenceless civilians, wounded combatants and prisoners in Bosnia have been ignored by the warring sides with a cynicism not witnessed by the humanitarian organisation, even during the bloody conflict in Afghanistan and some 17 years of civil war in Lebanon.

Acts of vengeance, indiscriminate attacks on civilians, and the so-called "ethnic cleansing," have been carried out on what the organisation describes as "a massive scale".

At its Geneva headquarters, a senior ICRC delegate held up four separate accords signed by Bosnia's Serb, Moslem and Croat leaders, and in one case the government in Belgrade, pledging to respect the Geneva Conventions. The first was signed on May 22 last year, a month after the conflict began, and all have been broken.

"In Bosnia we have had everything that is contrary to the Geneva Conventions," the delegate said, "massacres of civilians, the disappearance and execution of prisoners we have visited, rapes, mass arrests, expropriation of property, destruction of houses, and forced movement of civilian populations.

HE adds: "When you have 200 delegates working all over Bosnia trying to convince everyone, from the highest-ranking to the lowest, saying 'please behave humanely,' and you see its having no effect – *what* can you say?"

Comparing the Balkans tragedy with the brutality the ICRC has witnessed in every conflict since the Second World War, the delegate says: "There is a rationality gap in Bosnia that is bigger than anything we saw in Lebanon, or even Afghanistan."

One of the difficulties the ICRC has faced in increasing degrees over the past three or four years has been the politicisation and militarisation of humanitarian aid.

The UN under Mr Boutros Boutros Ghali has adopted what it calls an "Agenda for Peace." The Egyptian UN chief has ruled that conflict operations must be integrated in every dimension: military, political and humanitarian.

Where an organisation like the ICRC might find this policy advantageous in the initial phase of a war, the case of Bosnia suggests the advantages are only short-term.

A political solution is still some way off and the humanitarian operation has been a relative failure.

ICRC delegates, along with more than 500 local employees – of all ethnic groups – are based in 17 areas of the fragmented former communist country.

They are striving to provide protection for civilians by being present in as many areas as possible. However, their main success to date has been securing the release of 5,000 prisoners of war.

John McKay

War-weary Bosnians being flown to London – a few of the 5,000 prisoners for whom the Red Cross has negotiated a release

Hefty production-related subsidies to farmers have led to perverse results, including high food prices

Pressure for farm reforms

IN THE next few months, most Swiss farmers will begin receiving their first dose of general direct payments from their federal government.

The idea, now widely accepted among agricultural policy-makers throughout the industrialised world, is to separate the question of farm income from the question of production.

Switzerland, like most other industrialised countries, has provided farmers with hefty production subsidies in the postwar period.

Indeed, the country is, according to the Organisation for Economic Co-operation and Development (OECD), the champion in this field, with production subsidies accounting for no less than 79 per cent of consumer prices in 1987-88.

These production-related subsidies have led, in Switzerland as elsewhere, to a number of perverse results. Production has been excessive and the environment has been damaged by the fertilisers and other chemicals that have been over-used to intensify output. High product prices coupled with severe import restrictions have hurt consumers while helping small farm units – that might otherwise have collapsed – to survive.

For a long time, the Swiss were willing to put up with very high food costs, still feeling gratitude to farmers for providing adequate supplies of food during the Second World War. Indeed, the legal basis of farming in the country is a 1951 law that called for the maintenance of a vigorous peasant farming community.

However, in recent years, as comparisons with food costs in other countries have become more unfavourable, attitudes have changed. Many Swiss have voted with their feet, shopping regularly in neighbouring France and Germany where prices for meat and dairy products are as much as 50 per cent lower than at home.

An additional pressure for reform has come from the Uruguay Round of multilateral trade negotiations which, if it succeeds, would oblige Switzerland, like other countries, to reduce its subsidies to farmers.

The Swiss government embarked on a big reform programme about two years ago, with three aims generally agreed. These were to promote larger farm units, to reduce surpluses and to ease the impact of agriculture on the environment.

In the typical Swiss way, once there is general agreement on something, the execution follows remarkably quickly. By last October, a law had been passed incorporating these principles, and the regulations to implement it cleared the cabinet two weeks ago.

THANKS to high subsidy levels, Swiss farm units have remained very small – the average full-time farm was only about 16 hectares in 1990. The agricultural sector employed about 150,000 people, some 5 per cent of the labour force, and produced goods worth SFr9.4bn, 4.1 per cent of total GDP.

The initial focus of reform is in dairy products, partly because that is where the distortions are most pronounced, partly because important cheese exports could soon be outlawed in many countries unless production subsidies are cut.

Some SFr190m in direct payments will start to flow in the next few weeks. Two types of payment are foreseen. The first is in return for the producer milk price dropping on September 1 from SFr1.07 to SFr0.97 per litre.

The other element is for contributions by farmers to improving the environment, measures such as returning land to pasture, using biological techniques and raising free range animals.

Swiss officials hope the rewards for these measures will stop farmers from thinking only about increasing production.

Amenity is an important element of Swiss agriculture, especially in the mountains. If farmland is not looked after, the danger of floods and erosion is enhanced. Also, it becomes less attractive to tourists.

Some Swiss worry that as farmers start to receive their direct payments, they will simply head for the Seychelles.

The government hopes to stop them by insisting that grassland must be cut at least once a year if the farmer is to qualify for payments. If the land reverts to forest – which happens quite quickly if it is neglected – direct payments are halted.

Direct payments will grow in the future only to partially compensate for inflation – "we are telling farmers to cut their costs by 2 per cent a year. We will raise payments only if inflation is over two per cent," an Agriculture Ministry official says.

The hope ultimately is to get milk prices down to levels that are slightly higher than EC prices, so that products can be exported without subsidies. In the official's view, this means a price of about SFr0.75 per litre of milk.

However, the government is not optimistic about the speed with which production capacity will disappear.

Milk output, for example, has been subject to quotas for several years, and many farmers have substantial reserve capacity.

At the current milk price, the average farm has 12 cows. Officials estimate that at SFr0.75 per litre, a farmer will need to have at least 30 cows to be economically viable.

The government wants to expand the direct payment programme to meats, not least in the hope of slowing the exodus of consumers to neighbouring countries. But no moves are scheduled at the moment, largely because of budgetary restraints and because of the successful campaign by farmers' organisations to spread out the pain.

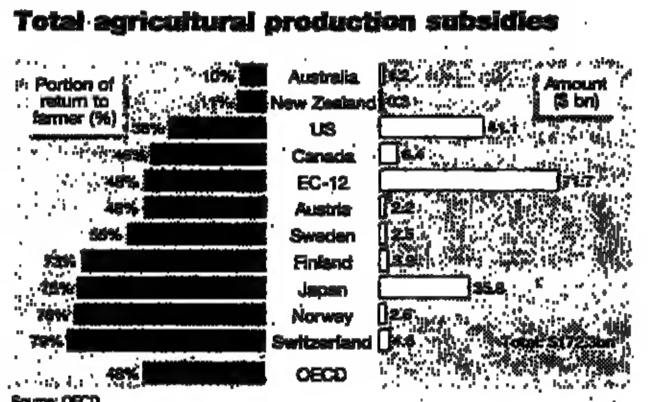
Mr Marcel Sandoz, the eloquent president of the Schweizerische Bauernverband (Swiss Peasant Farmers' Union), says Swiss farmers are among the most heavily indebted in Europe, having invested heavily in anticipation of policy stability.

"In farming, the smallest unit of time is one year. It takes a generation to change the way a farmer thinks, yet we are being asked to adapt to a revolution in only a few years," says Mr Sandoz.

Farmers launched a legal appeal for slow implementation of the reform based on the rather charming Swiss notion that a citizen has the right to trust his government. The government agreed.

Ian Rodger

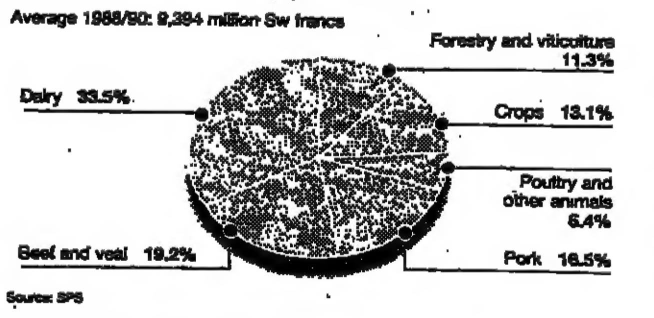
Total agricultural production subsidies



Source: OECD

Gross earnings from agriculture

Average 1988/90: 9,384 million Sw francs



Source: SPS

Linguistic divisions

Continued from previous page:

French-speaking areas, but also worked in the opposite direction. "In the canton of Zürich, when it started to introduce early French in schools, there was really important opposition. The linguistic divide is more serious than the authorities would admit."

The Swiss Franco-German relationship was characterised by Professor William Ossipow, lecturer in politics at Geneva University, as one of "co-existence". He also believes that the Swiss French have to share the blame for their under-representation in some centres of power. "That the federal government administration is mainly in the hands of German-speaking people is not entirely their fault. The French-speakers are very reluctant to speak German because of their own attitude of cultural superiority."

The battle for hearts and minds of divided Fribourg is conducted by rival newspapers, the Freiburger Nachrichten and La Liberté. They share the same offices in the centre of Fribourg but are under separate ownership. Neither makes language concessions to break down barriers between the canton's 210,000 citizens.

Editor of the Freiburger Nachrichten, Mr Erich Camenzind, has been one of the main defenders of Swiss German rights in the city.

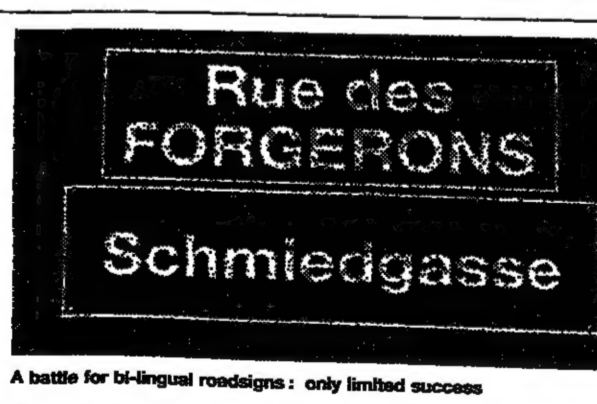
Years of campaigning by Mr Camenzind and other prominent Swiss Germans finally bore fruit two years ago when their language was recognised. Previously court cases involving German-speaking parties were conducted in French. Ordinary monolingual Swiss Germans also had difficulty dealing with the local authority. Now the canton is obliged to communicate in both languages.

However, a campaign by Mr Camenzind and others to make street signs bilingual in Freiburg (as he calls it) resulted in only limited success. A compromise was agreed that allowed just 24 streets to have bilingual signs, but the limit of francophone concessions had been reached. A request to have bilingual Fribourg-Freiburg signs on the platforms of Fribourg station was turned down flat.

Cultural and religious divisions in Switzerland have only degenerated into violence in modern times over one particular region. A car-bomb exploded in the centre of Berne in January, killing the driver and injuring passers-by. Police identified the man as a French-speaking nationalist from canton Jura who had planned to bomb Bern town hall. Raids by police in Jura canton recovered some 50 grenades and quantities of explosive they said had been stolen from the army for a renewed Jura nationalist campaign of violence similar to one in the 1970s.

No other local disputes are likely to lead to violence. Cantonal power is the safety valve for the ethnic divide in Switzerland.

So long as each canton, particularly in francophone Switzerland, is allowed to *fait sa propre petite cuisine* (get on with its own petty affairs) on the political level, that border trench, the *Röstigraben*, will never be filled, in the imagination of the Swiss, with anything more threatening than fried potato cakes.



A battle for bi-lingual roadsigns : only limited success

Change in gambling laws brings further attraction for wealthy international tourists

New casino lure for life's high-rollers

WHEN Fedor Dostoevsky was forced to pawn his watch in Geneva in August, 1863, after a run of bad luck on the gaming tables, and returned to Russia to relate his experiences in a novel, *The Gambler*, the Swiss city enjoyed a small reputation for decadence and intrigue.

It is no longer a wild town, but does play host to many international organisations, including the European headquarters of the United Nations, so at least the intrigue has survived.

Ten years after Dostoevsky's retreat to St Petersburg, casinos were banned under the Swiss Constitution and the citizenry returned to its Calvinist way of life, largely free of moral contamination from Europe's dissolute aristocracy, travelling the social axes of Paris, Baden-Baden, and southern Europe.

On March 7 this year the Swiss had a change of heart. They voted in a referendum for the roulette wheels to spin again and for the return of life's high-rollers.

It was no coincidence that one of the main lobby groups, which campaigned for a law change, was the Swiss Tourist Federation, representing the interests of 650 tourism enterprises and local authorities. During the past 10 years the average number of overnight stays in Swiss hotels has stagnated. Any traces of complacency in the industry disappeared earlier this year after 1992's overnight stays declined 3.2 per cent.

Switzerland's gross income from tourism last year was SFr21.4bn (£9.5bn) compared with SFr20.8bn in 1991. Due to price rises, the increase in income did not reflect the decline in bookings. Tourism is the country's third-largest contributor to the balance of payments, after engineering and chemicals. About 208,000 people are directly employed in the sector, amounting to 7 per cent of the workforce.

Compared to Austria and France, Switzerland remains an expensive proposition for Europe's recession-hit tourists. One of the few areas of real growth have been camping, caravaning and youth hostels, where reasonable prices have been maintained. Unlike Austria, Switzerland may not easily attract the newly-affluent citizens of former communist countries, such as Hungary.

The Swiss tourist industry is driven by quality and price, rather than scale. Prior to the outbreak of the First World War, there were 211,000 hotel beds in the country. Last year this figure was 267,000, so the number has not changed significantly in 80 years. While neighbouring countries race ahead in mass-market tourism, resorts in Switzerland are continually looking for improvements in quality.

THE casino legislation is regarded, therefore, as another small addition to the country's formidable tourist assets of Alpine beauty, lakeside tranquillity and world-class service and efficiency.

The Swiss Tourist Federation's spokeswoman, Ms Elizabeth Kaufmann, explained the reasoning behind the casinos campaign – "we exist as a lobby group for the industry and we had been making representations at federal level for a change in the law for years, because that is what our members wanted."

As Switzerland is still perceived as the main European playground of the wealthy, there was some logic in the tourist federation's use in its campaign of the Swiss proverb - "if money is growing in the streets, you only have to bend down to gather it in."

Casinos already exist in most Swiss cities and resorts as the ban was eased in 1956. But the maximum stake allowed is SFr5, less than the price of a beer in a Swiss hotel. Because of this, wealthy tourists seeking the thrill of the green baize have to make cross-border raids to take advantage of the many casinos specially built near Switzerland's frontiers by its neighbours. Indeed, Swiss themselves are not averse to driving across the border for a flutter.

One sore point for the industry is that the government's support for the re-opening of real casinos was bolstered by its intention to take 80 per cent of gross revenues. A debate is still continuing over how the extra funds will be spent. The tourist federation would like some money set aside for tourism promotion and investment, while the government favours social spending perhaps to appease religious groups and others opposed to casinos.

IN St Moritz, the centre of the country's most successful tourist area, the Grisons, there was jubilation at the outcome of the casino referendum. Deputy tourist director for the resort, Mrs Anne-Marie Meyer, says St Moritz and neighbouring villages voted heavily in favour for what is regards as an important improvement in facilities. Hotel occupancy was only 65 per cent in March, and St Moritz, with its Cresta Run toboggan ride and horse racing on ice, has obvious attractions for the sporting tourist.

Only a maximum of seven licences are expected to be granted nationwide, and there will be fierce competition among the resorts and cities to be awarded one. Mrs Meyer was confident of the prospects for St Moritz – "we definitely want a real casino here and I'm sure we'll get one. But the whole process of changing cantonal law could mean a delay of more than two years before it can be opened."

St Moritz and other Swiss resorts are unlikely to see a surge in business this year. A survey by the Union Bank of Switzerland, says hotels are prepared for the general downward trend in overnights to continue. Roughly 25 per cent of hoteliers forecast falls in sales and earnings.

Germans were the most numerous foreign visitors last year, followed by Britons and Americans, then Italians and French.

When the casinos open after the mid-1990s the government will be determined to keep a close check on the clientele to make sure the establishments do not become another Swiss institution upon which the world's money-launderers can test their ingenuity. Switzerland's new-found sensitivity about the wages of crime would please even Dostoevsky.

Should the casinos attract the wrong sort of tourist, however, the authorities would have no hesitation in turning back the clock with a call of *rien ne va plus* ("no more bets").

John McKay

The city is home for one of Switzerland's largest machine tool companies, Charmilles Technologies

Geneva: a centre of precision manufacturing

WHEN one thinks of Geneva, manufacturing is not something that comes immediately to mind.

Yet the city is a significant centre of precision manufacturing, especially of up-market watches, but of other products as well.

It is home, for example, to one of Switzerland's largest machine tool companies, Charmilles Technologies.

Charmilles, like the Geneva watchmakers, may be a rather small company by international standards – sales last year reached SFr314m – but it is a global leader in a niche market.

Its niche is electro-deposition (spark erosion) machines. EDM technology is of fairly recent vintage, having been discovered by accident by two Soviet engineers in 1943.

The attraction of this technology was that it permitted cutting metal in unusual shapes while maintaining a high level of precision. As such, it was an appropriate replacement for milling machines in some applications, notably die sinking.

Industrial production of EDM machines was started by a UK company in 1952 but, as in so many other cases, that company has long since disappeared. Charmilles, then part of the Ateliers Charmilles industrial conglomerate, began in the mid 1950s and soon established itself as the leading world supplier.

Like its watchmaking neighbours, it concentrated for a long time on making the most sophisticated machines, priding itself on its precision technology.

However, in recent years, again like its watchmaking neighbours, it found itself being undercut by Japanese competitors making simpler but cost effective machines in high volume.

As Japan's mass consumer product industries became stronger, they too became interested in EDM, prompting such local machine tool makers as Makino and Hitachi Seiki to enter the fray in the 1960s.

Initially, Charmilles did not pay much attention. It continued to win sales in Japan for its sophisticated machines, and both the company and its agent were content to play the low volume, high margin game.

However, it gradually became apparent that customers introduced to EDM technology on Japanese machines would continue buying Japanese machines as they became more demanding rather than switch to Charmilles.

"Now the technological gap is much smaller, so we cannot maintain our stance of concentrating at the top end," says André Richoz, president.

The other shock for Charmilles in recent years was to realise that Japan had become the most important market for EDM machines.

But today, Japan represents a third of the world market for EDM machines, and Charmilles has only a tiny share there. Only three per cent of the machines it makes go to Japan. In other markets too, Charmilles has found itself squeezed by Japanese competitors who now account for 42 per cent of world output compared to 15 per cent made in Switzerland.

Mr Richoz, who was hired away from the Swiss engineering group Sulzer three years ago to lead Charmilles, has set about trying to improve the group's position.

"We cannot be strong in the world without having a significant position in the Japanese market," he says.

A subsidiary has been set up in Tokyo and the group is designing products and training programmes specially for the Japanese market. Although the company makes its own numerical controls, it has adopted Fanuc controls for its products in Japan because Japanese engineers are accustomed to them.

"We do not expect to make money there quickly. Our objective is to have an exposure to the toughest competition," Mr Richoz says.

Charmilles, now part of the Georg Fischer engineering group, has not escaped the ravages of the recession. Precise figures are not revealed, but officials say that after a handsome profit in 1990, the company tumbled into loss in 1991. Last year, its result improved but were still termed "unsatisfactory".

Employment at the company's factory in the Geneva suburb of Satigny has been cut from 720 to 650, but is now considered to be at a stable level.

Ian Rodger

Tax incentives for new businesses have been agreed

City widens its horizons

NOT so long ago, Geneva, like most cities in Switzerland, turned up its nose at the notion of industrial promotion. Jobs were plentiful and more businesses wanted to come to the city than there was space for, writes Ian Rodger.

Would-be newcomers were invited to locate in industrial and technology parks that were springing up in neighbouring communities across the French border. Work permits were severely rationed.

But times have changed. Following a speculative property boom in the mid 1980s, the canton of Geneva was particularly hard-hit by the early 1990s slump. It has an unemployment rate of six per cent, with 13,500 people out of work.

Geneva's leaders have been quicker than most of their Swiss cousins in joining the rough and tumble international competition among governments to lure new jobs.

Two years ago, the cantonal government decided to develop an industrial promotion policy, but it took some time to convince people of the need – "it was difficult to wake up. We had it so easy for so long," says Mr Robert Kuster, head of economic promotion.

Whereas it used to take months to get approval for work permits for businessmen, it can now be done in less than a week. Even tax incentives for new businesses have been agreed.

The canton's promotion campaign is based on Geneva's status as an international centre and on the quality of life in its region.

The main focus has been on international companies wanting to establish European headquarters. Geneva already has a fair stock of these, notably Du Pont de Nemours and Hewlett Packard.

The other targets are international organisations. The city has long been an important centre for the United Nations, with 15 UN organisations based there. Competition among cities to attract UN agencies has become more intense in recent years and self-satisfied Geneva was slow to respond. Last year, it lost the battles for the secretariat to administer the UN treaty outlawing chemical weapons and for the Commission on Sustainable Development, arising out of the Rio de Janeiro environment conference.

It is spending SFr60m to turn Palais Wilson, the former home of the League of Nations, into a House of the Environment, aiming to attract various UN and non-governmental organisations, (NGOs).

The financial community is doing its bit. Last August, it set up Fondation Place Financière to promote Geneva's standing as a European financial centre. And last month it convinced the European Federation of Financial Analysts to set up its new institute in Geneva.

At the outset, only two new jobs will be created but, coming at a time when Geneva's bourse is preparing to close in favour of a national electronic exchange, it is welcome.

"It's a first step," says Mr Thierry Lombard, a partner in the private bank Lombard, Odier and chairman of the Fondation Place Financière. "But now we have to develop it. I will be happy in three years time when there are signs that European competence in this area is catching up with the Americans."